



[Release No. 34-103066; File No. SR-NYSEARCA-2025-07]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Amendment No. 3, and Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 3, to Amend Rules Regarding Position and Exercise Limits for Options on the Grayscale Bitcoin Trust and to Permit Flexible Exchange Options on the Grayscale Bitcoin Trust

May 19, 2025.

I. Introduction

On January 29, 2025, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change 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. On February 7, 2025, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change, as amended, was published for comment in the Federal Register on February 18, 2025.³

On March 12, 2025, pursuant to Section 19(b)(2) of the Act,⁴ 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 disapprove the proposed rule change.⁵ The Commission has received no comments on the proposed rule change, as modified by

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 102402 (Feb. 11, 2025), 90 FR 9765.

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 102629, 90 FR 12630 (Mar. 18, 2025). The Commission designated May 19, 2025, as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

Amendment No. 1. On April 28, 2025, the Exchange filed Amendment No. 2 to the proposed rule change (“Amendment No. 2”). On May 6, 2025, the Exchange withdrew Amendment No. 2 and filed Amendment No. 3 to the proposed rule change (“Amendment No. 3”), as described in Items II and III below, which Items have been prepared by the Exchange.⁶ The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 3, and is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act⁷ to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 3.

II. Self-Regulatory Organization’s Description of the Proposed Rule Change, as Modified by Amendment No. 3

The Exchange proposes to certain [sic] rules that restrict the position and exercise limits for options on the Grayscale Bitcoin Trust ETF (“GBTC”) and to permit Flexible Exchange (“FLEX”) Options on GBTC. This Amendment No. 3 supersedes and replaces the original filing in its entirety.⁸ The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

III. 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

⁶ Amendment No. 3 is available at: <https://www.sec.gov/comments/sr-nysearca-2025-07/srnysearca202507-598415-1738062.pdf>.

⁷ 15 U.S.C. 78s(b)(2)(B).

⁸ On February 7, 2025, the Exchange submitted partial Amendment No.1 to its proposal to make certain technical changes to the Exhibit 5 (the “original filing”). See Securities Exchange Act Release No. 102629 (February 11, 2025), 90 FR 12630 (February 18, 2025) (SR-NYSEARCA-2025-07). On April 28, 2025, the Exchange filed Amendment No. 2, which was withdrawn on May 6, 2025. This Amendment No. 3 modifies the original filing to make clarifying changes to the Purpose section to reflect that the proposed position and exercise limits for options on GBTC will be the same as the position and exercise limits for other equity options (i.e., not a fixed limit of 25,000 contracts) and that any FLEX and non-FLEX positions in GBTC options must be aggregated for purposes of calculating position and exercise limits for such options, which changes more closely align with the rule text in the Exhibit 5. The Exchange also proposes a technical change to replace rule text references to “the Grayscale Bitcoin Trust BTC (BTC)” with its ticker symbol, “GBTC”.

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

The Exchange proposes to amend certain rules that restrict 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 remove the 25,000-contract position limit on GBTC options thus allowing such limits to be increased;⁹ 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 require the aggregation of any FLEX and non-FLEX positions for purposes of calculating position and exercise limits for GBTC.

The Exchange notes that this proposal is competitive given that Nasdaq ISE, LLC (“ISE”) recently filed a proposal to remove the 25,000-contract position and exercise limits applicable to options on the iShares Bitcoin Trust ETF (“IBIT”).¹⁰

Background

GBTC is an ETF that holds bitcoin and is listed on the Exchange.¹¹ On October 18, 2024,

⁹ As discussed herein, the removal of GBTC (and associated 25,000-contract limit) from Commentary .06(f) means the position limit for GBTC options will be determined based on trading in GBTC during the most recent six-month period. See 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).

¹⁰ See Amendment No 2 to Proposed Rule Change to modify the position and exercise limits for IBIT options to the applicable position and exercise limits as determined by Options 9, Sections 13 and 15 (SR-ISE-2024-62), filed Mar. 26, 2025, available at <https://www.sec.gov/comments/sr-ise-2024-62/srise202462-593575-1721782.pdf>. (“ISE IBIT Proposal”). Like GBTC, IBIT is an ETF that holds bitcoin.

¹¹ 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).

the Commission approved the listing and trading of GBTC options on NYSE American, LLC (“NYSE American”).¹² On November 22, 2024, the Exchange obtained rule authority to trade GBTC options.¹³ The position (and exercise)¹⁴ 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.¹⁵

FLEX Equity Options are not generally subject to position (or exercise) limits.¹⁶ Today, pursuant to Rule 5.32-O(f)(1), GBTC options are not approved for FLEX trading.¹⁷ Therefore, the 25,000-contract limit for GBTC options currently applies solely to non-FLEX GBTC options.

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.”¹⁸ 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.”¹⁹ Based on its review of the data and analysis provided by NYSE American, the Commission concluded that the proposed 25,000-contract position and exercise

¹² 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, among others) (the “GBTC Options Approval Order”).

¹³ 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”).

¹⁴ The Exchange notes that the exercise limit for GBTC options are based on, and are always the same as, the position limit for such options. See Rule 6.9-O (Exercise Limits).

¹⁵ Pursuant to Rule 6.8-O, Commentary .06(f), options on the following ETFs -- all of which, like GBTC, hold bitcoin -- are also subject to a 25,000-contract position and exercise limit: IBIT, the Grayscale Bitcoin Mini Trust BTC (“BTC”), the Bitwise Bitcoin ETF (“BITB”), the Fidelity Wise Origin Bitcoin Fund (“FBTC”), and the ARK 21Shares Bitcoin (“ARKB”).

¹⁶ See Rule 5.35-O(b) (subject to the exceptions enumerated in the rule “there shall be no position limits” for FLEX Equity Options).

¹⁷ Pursuant to Rule 5.32-O(f)(1), FLEX trading is also not available for options on IBIT, BTC, BITB, FBTC, and ARKB.

¹⁸ See GBTC Options Approval Order, 89 FR at 84971.

¹⁹ See *id.*

limits for GBTC options satisfied these objectives.²⁰ The Exchange adopted the already-approved 25,000-contract limit for GBTC options.²¹

Position Limits

While NYSE American proposed an aggregated 25,000 contract position (and exercise) limit for GBTC options, it nonetheless believed that evidence existed to support a much higher position limit.²² Specifically, in approving GBTC options trading on NYSE American, the Commission considered and reviewed NYSE American's analysis that the exercisable risk associated with a position (and exercise) limit of 25,000 contracts represented only 0.9% of the outstanding shares of GBTC.²³ The Commission also considered and reviewed NYSE American's arguments that with a 25,000-contract limit, and 284,570,100 GBTC shares outstanding, 114 market participants would have to simultaneously exercise their positions to place GBTC under stress.²⁴ 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 might create incentives to manipulate or disrupt the underlying market so as to benefit the options position.²⁵

GBTC currently qualifies for a 250,000-limit on same-side contracts pursuant to Rule 6.8-O Commentary .06(e)(i), which requires that trading volume for the underlying security in

²⁰ See id.

²¹ See Arca GBTC Options Notice, 89 FR at 94842. See also Rule 6.8-O, Commentary .06(f).

²² 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)).

²³ See id. Data represents figures from FactSet as of August 30, 2024.

²⁴ See GBTC Options Approval Order, 89 FR at 84971.

²⁵ Id.

the most recent six months be at least 100,000,000 shares.²⁶ As of November 25, 2024, during the most recent six-month period, trading volume for GBTC was 550,687,400 shares. In addition, as of November 25, 2024, the market capitalization for GBTC was \$20,661,316,542,²⁷ with an average daily volume (“ADV”) for the preceding three months 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 and exercise limit. Also, as of November 25, 2024, there were 19,787,762 bitcoins in circulation.²⁸ At a price of \$94,830 per bitcoin,²⁹ that equates to a market capitalization of greater than \$1.876 trillion. If an aggregated position and exercise limit of 250,000 contracts were considered, the exercisable risk would represent 9.13%³⁰ of GBTC shares outstanding. Given GBTC’s liquidity, the current 25,000-contract position (and exercise) limit is extremely conservative.

As noted above, position and exercise limits are designed to limit the number of options contracts traded on an 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 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.

²⁶ 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).

²⁷ The market capitalization of GBTC 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.

²⁸ See <https://www.coingecko.com/en/coins/bitcoin>.

²⁹ This is the approximate price of bitcoin from 4 p.m. ET on November 25, 2024.

³⁰ This percentage is arrived at with this equation: (250,000 contract limit * 100 shares per option / 273,950,100 shares outstanding).

To achieve this balance, the Exchange proposes to remove GBTC (and the associated 25,000-contract limit) from Commentary .06(f), which would enable GBTC options to trade in the same manner as options on other ETFs not included in this Commentary.³¹ Specifically, this proposal would result in an increased position (and exercise) limit for GBTC options from 25,000 to 250,000 same-side contracts, pursuant to Commentary .06(e)(i). In addition, like options on other ETFs not listed in Commentary .06(f), position limits for GBTC options would be subject to subsequent six (6) month reviews to determine future position (and exercise) limits.³²

In addition to determining GBTC's eligibility for a 250,000-contract position (and exercise) limit per Commentary .06(e)(i), the Exchange performed additional analyses regarding GBTC in support of this proposal. 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.³³ At a price of \$94,830 per bitcoin,³⁴ that equates to a market capitalization of greater than \$1.876 trillion. If an aggregated position (and exercise) limit of 250,000 contracts were considered, the exercisable risk would represent 9.13%³⁵ 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

³¹ See proposed Rule 6.8-O, Commentary .06(f). The Exchange notes that the ETFs included in Commentary .06(f) (other than ETFs like GBTC that hold bitcoin) have significantly higher position limits than are authorized by Rule, which increases were subject to Exchange rule filings.

³² See Rule 6.8-O, Commentary .06(e) (providing that, every six months, the Exchange will review the volume and outstanding share information on all underlying ETFs on which options are traded months to determine applicable position limits). See also Rule 6.9-O (providing that exercise limits for options on an underlying will be the same as the position limits for such underlying).

³³ See <https://www.coingecko.com/en/coins/bitcoin>.

³⁴ This is the approximate price of bitcoin from 4 p.m. ET on November 25, 2024.

³⁵ This percentage is arrived at with this equation: $(250,000 \text{ contract limit} * 100 \text{ shares per option} / 273,950,100 \text{ shares outstanding})$.

options on GBTC would represent less than 0.10% of all bitcoin outstanding.³⁶ The Exchange notes that if GBTC options were subject to a 250,000-contract position and exercise limit (based on GBTC trading volume) and if all options on GBTC shares were exercised at once, this occurrence would have a virtually unnoticed impact on the entire bitcoin market. This analysis demonstrates that a 250,000-contract position (and exercise) limit for GBTC options would be 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 ("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 Chicago Mercantile Exchange ("CME") bitcoin futures contract,³⁷ which has a position limit of 2,000 futures (for the initial spot month).³⁸ On October 22, 2024, CME bitcoin futures settled at \$94,945.³⁹ 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. Since substantial portions of any distributed options portfolio are 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 ≤ 1.00) should be a bit higher than the CME implied limit of 177,004.

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

³⁶ This number was arrived at with this calculation: $((250,000 \text{ limit} * 100 \text{ shares per option} * \$75.42 \text{ settle}) / (19,787,762 \text{ BTC outstanding} * \$94,830 \text{ BTC price}))$.

³⁷ CME Bitcoin Futures are described in Chapter 350 of CME's Rulebook.

³⁸ See the Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5 of CME's Rulebook. Each CME bitcoin futures contract is valued at five bitcoins as defined by the CME CF Bitcoin Reference Rate ("BRR"). See CME Rule 35001.

³⁹ 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.

according to an aggregation ratio(s).⁴⁰ 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.⁴¹ 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. Considering CME's position limits on bitcoin futures, the Exchange believes a 250,000-contract limit for GBTC options would be appropriate.

Finally, the Exchange analyzed a position and exercise limit of 250,000 for GBTC against options on SPDR Gold Shares ("GLD"), which (like GBTC), is a commodity-backed ETF.⁴² The Exchange notes that GLD has a float of 306.1 million shares and a position limit of 250,000 contracts.⁴³ 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. In comparison, a 250,000-contract position limit in GBTC would represent 9.13% of the float of GBTC. . [sic] While less conservative than the standard applied to options on GLD, the Exchange nonetheless believes that subjecting GBTC options to a 250,000-contract position and exercise limit would be

⁴⁰ See <https://www.cmegroup.com/education/courses/market-regulation/position-limits/position-limits-aggregation-of-contracts-and-table.htm>.

⁴¹ Id.

⁴² GLD, like GBTC, holds one asset in trust.

⁴³ See <https://www.ssga.com/us/en/intermediary/etfs/spdr-gold-shares-gld>.

appropriate.⁴⁴

Based on the foregoing, the Exchange believes that it has demonstrated that GBTC has more than sufficient liquidity to garner an increased position and exercise limit of 250,000 same-side contracts. The Exchange believes that the significant liquidity present in GBTC mitigates against the potential for manipulation.

The Exchange believes that allowing GBTC options to have increased aggregated position and exercise limits would lead to a more liquid and competitive market environment for such 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 description of the hedge(s). Market Makers⁴⁵ would continue to be exempt from this reporting requirement, however, the Exchange may access Market Maker position information.⁴⁶ 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.⁴⁷

⁴⁴ See, e.g., Rule 6.8-O, Commentary .06(e) (setting forth trading volume requirements to qualify for a 250,000-contract position (and exercise) limit).

⁴⁵ Per Rule 6.32-O(a), a Market Maker is an individual who is registered with the Exchange for the purpose of making transactions as a dealer-specialist.

⁴⁶ 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").

⁴⁷ See Rule 6.6-O. Reporting of Options Positions.

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.

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 and would require the aggregation of any FLEX and non-FLEX positions in GBTC for purposes of calculating position

and exercise limits.⁴⁸ Thus, for example, assuming a 250,000-contract position limit for options on GBTC, the Exchange would restrict a market participant from holding positions that could result in the receipt of more than 250,000,000 shares (if that market participant exercised all its GBTC options).

The share creation and redemption process available to GBTC 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

⁴⁸ See proposed Rules 5.32-O(f)(1) (excluding GBTC options from prohibition against FLEX trading); and 5.35-O(b)(iii) (adopting requirement that any FLEX and non-FLEX positions in GBTC be aggregated for purposes of calculating position and exercise limits for GBTC as set forth in Rules 6.8-O and 6.9-O).

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.⁴⁹ 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 as well as any subsequent trading of FLEX GBTC options on the Exchange. Additionally, the Exchange is a member of the Intermarket Surveillance Group (“ISG”) under the ISG Agreement. ISG members work together to coordinate surveillance and investigative information sharing in the stock, options, and futures markets. In addition to the surveillance that is conducted by the Exchange’s market surveillance staff, the Exchange would also be able to obtain information regarding trading in shares of GBTC on other exchanges through ISG. 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.⁵⁰ The Exchange will implement any additional surveillance 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

⁴⁹ See GBTC Options Approval Order, 89 FR at 84966-68 (regarding surveillance procedures applicable to GBTC and other funds that hold bitcoin).

⁵⁰ 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 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.

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 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"),⁵¹ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁵² 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 the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

Position Limits

The Exchange believes the proposed rule change to remove the 25,000-contract position (and exercise) limit on GBTC options thus allowing such options to qualify for higher aggregated limits will remove impediments to and perfect the mechanism of a free and open

⁵¹ 15 U.S.C. 78f(b).

⁵² 15 U.S.C. 78f(b)(5).

market and a national market system, and, in general, protect investors and the public interest as it will provide market participants with the ability to more effectively execute their trading and hedging activities. In addition, this proposed change may allow Market Makers to maintain their liquidity in these options in amounts commensurate with the continued demand for GBTC options. Further, an increased aggregated position (and exercise) limit on GBTC options may 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 permitting a higher aggregated position (and exercise) limit on GBTC options would further allow institutional investors to utilize such options for prudent risk management purposes.

As noted herein, the Exchange analyzed several data points that support the appropriateness of an aggregated position (and exercise) limit of 250,000 contracts for GBTC options based on recent trading volume in GBTC. Specifically, 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 an aggregated limit of 250,000 contracts represented 9.13% of GBTC shares outstanding. Further, since GBTC has a creation and redemption process managed through the issuer (whereby bitcoin is used to create GBTC shares), a 250,000-contract position (and exercise) 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 a 250,000-contract position limit for GBTC options to the (actual) position limits for equivalent bitcoin futures revealed that a 250,000-contract limit would be appropriate. Finally, the Exchange compared an aggregated position limit of 250,000 contracts for GBTC options against GLD, another commodity-backed ETF. A position limit exercise in GLD represents 8.17% of the float of GLD. By comparison, a position limit exercise in GBTC options (assuming a 250,000-contract limit) would represent 9.13% of the GBTC float. Although a 250,000-contract position (and exercise) limit on GBTC options would not be as

conservative as the standard applied to GLD, it is comparable and therefore appropriate.

FLEX GBTC Options

The Exchange believes that the proposal to permit FLEX GBTC options and to require aggregation of any FLEX and non-FLEX positions in GBTC for purpose of calculating position and exercise limits would remove impediments to and perfect the mechanism of a free and open market for several reasons. First, 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 GBTC options 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).⁵³ 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.

Position Limits. The Exchange believes that its proposal to remove the 25,000-contract position and exercise limit on GBTC options, thus allowing such limits to increase, will not burden intra-market competition because it applies to all market participants that trade (or want to trade) GBTC options. The Exchange believes the proposal would provide additional opportunities for market participants to continue to efficiently achieve their investment and

⁵³ See GBTC Options Approval Order, 89 FR at 84966-68 (regarding surveillance procedures applicable to GBTC and other funds that hold bitcoin).

trading objectives for equity options on the Exchange. 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.

IV. Proceedings to Determine Whether to Approve or Disapprove SR-NYSEARCA-2025-07, as Modified by Amendment No. 3, and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act⁵⁴ to determine whether the proposed rule change, as modified by Amendment No. 3, should be approved or disapproved. Institution of such proceedings is appropriate at this time in view of the legal and policy issues raised by the proposed rule change. Institution of proceedings does

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15 U.S.C. 78s(b)(2)(B).

not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, as described below, the Commission seeks and encourages interested persons to provide comments on the proposed rule change.

Pursuant to Section 19(b)(2)(B) of the Act,⁵⁵ the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of, and input from commenters with respect to, the proposed rule change's consistency with the Act, and in particular, Section 6(b)(5) of the Act, 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.⁵⁶

Under the Commission's Rules of Practice, the "burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization that proposed the rule change."⁵⁷ The description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding,⁵⁸ and any failure of a self-regulatory organization to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Act and the applicable rules and regulations.⁵⁹ The Commission is instituting proceedings to allow for additional consideration and comment on the issues raised herein, including as to whether the proposal is

⁵⁵ Id.

⁵⁶ 15 U.S.C. 78f(b)(5).

⁵⁷ 17 CFR 201.700(b)(3).

⁵⁸ See id.

⁵⁹ See id.

consistent with the Act. In particular, the Commission asks commenters to address the potential market impacts of the proposed position and exercise limits.

V. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the proposal, as modified by Amendment No. 3. In particular, the Commission invites the written views of interested persons concerning whether the proposal is consistent with Section 6(b)(5) or any other provision of the Act, and the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4, any request for an opportunity to make an oral presentation.⁶⁰

Interested persons are invited to submit written data, views, and arguments regarding whether the proposed rule change should be approved or disapproved by [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Any person who wishes to file a rebuttal to any other person's submission must file that rebuttal by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

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. Please include file number SR-NYSEARCA-2025-07 on the subject line.

⁶⁰ Section 19(b)(2) of the Act, as amended by the Securities Acts Amendments of 1975, Pub. L. 94-29 (June 4, 1975), grants the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Acts Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

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*]. Rebuttal comments should be submitted by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁶¹

⁶¹ 17 CFR 200.30-3(a)(12), (57).

Sherry R. Haywood,

Assistant Secretary.

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