

to route orders for execution'; [and] 'no exchange can afford to take its market share percentages for granted' because 'no exchange possess a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers' . . .³⁰ Accordingly, the Exchange does not believe its proposed pricing changes impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act,³¹ and Rule 19b-4(f)(2)³² thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-PEARL-2022-10 on the subject line.

Paper Comments

- Send paper comments in triplicate to Vanessa Countryman, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-PEARL-2022-10. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-PEARL-2022-10 and should be submitted on or before May 5, 2022.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³³

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 2022-07952 Filed 4-13-22; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-94643; File No. SR-FINRA-2022-007]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend FINRA Rule 2360 (Options) To Increase the Position and Exercise Limits for Conventional Options on Certain Exchange-Traded Funds

April 8, 2022.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 29, 2022, the Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4 under the Act,³ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

FINRA is proposing to amend Rule 2360 (Options) to increase the position and exercise limits for conventional options on certain exchange-traded funds ("ETFs").

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA 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, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B,

³⁰ *NetCoalition v. SEC*, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSE-2006-21)).

³¹ 15 U.S.C. 78s(b)(3)(A)(ii).

³² 17 CFR 240.19b-4(f)(2).

³³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

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

FINRA Rule 2360(b)(3)(A) imposes a position limit on the number of equity options contracts in each class on the same side of the market that can be held or written by a member, a person associated with a member, or a customer or a group of customers acting in concert. Position limits are intended to prevent the establishment of options positions that can be used to manipulate or disrupt the underlying market or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In addition, position limits serve to reduce the potential for disruption of the options market itself, especially in illiquid options classes.⁴ This consideration has been balanced by the concern that the limits “not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market.”⁵

Rule 2360(b)(3)(A)(i) does not independently establish a position limit for standardized equity options. Rather, the position limit established by the rules of an options exchange for a

particular equity option is the applicable position limit for purposes of Rule 2360.⁶ Rule 2360(b)(3)(A)(iii) provides that conventional equity options⁷ are subject to a basic position limit of 25,000 contracts or a higher tier for conventional option contracts on securities that underlie exchange-traded options qualifying for such higher tier as determined by the rules of the options exchanges. In addition, FINRA lists position limits for options on securities that have higher position limits—currently, only the ETFs listed in Rule 2360(b)(3)(A)(iii)a.6.—that also generally mirror the options exchange position limits. At this time, FINRA proposes to conform its conventional options position limits to the Cboe Exchange, Inc.’s (“Cboe”) recent amendments that increased the position limit options due to an ongoing increase in demand in options on the following ETFs: (1) iShares iBoxx \$ Investment Grade Corporate Bond ETF (“LQD”), and (2) VanEck Vectors Gold Miners ETF (“GDX”) (together, the “Underlying ETFs”).⁸

The proposed rule change would add to the table provided in Rule 2360(b)(3)(A)(iii)a.6. as follows, with the effect of each ETF being increased from the current position limit of 250,000 contracts:

- The position limit for options on LQD would be increased to 500,000 contracts.
- The position limit for options on GDX would be increased to 500,000 contracts.

FINRA notes the proposed position limits for options on LQD and GDX are consistent with current position limits for options on the iShares MSCI Brazil Capped ETF (“EWZ”), iShares 20+Year Treasury Bond Fund ETF (“TLT”), iShares MSCI Japan ETF (“EWJ”), and iShares iBoxx High Yield Corporate Bond Fund (“HYG”).

In support of the proposed rule change, as noted by Cboe, position limits are determined by the option exchange’s rules.⁹ The ETFs that underlie options subject to the proposed rule change are highly liquid and are based on a broad set of highly liquid securities and other reference assets. The above listed ETFs are listed on various national securities exchanges and meet their listing standards.

In supporting the proposed position limit increases, FINRA considered the liquidity of the Underlying ETFs, the value of the underlying securities or index components and relevant marketplace, the share and option volume for the Underlying ETFs, and, where applicable, the availability or comparison of economically equivalent products to options on the Underlying ETFs.

FINRA notes that Cboe has compiled the following trading statistics regarding shares of and options on the Underlying ETFs and the values of the Underlying ETFs and their component securities or index components, as applicable:

Product	ADV ¹⁰ (ETF shares millions)	ADV (option contracts)	Shares outstanding ¹¹ (millions)	Fund Market Capitalization ¹² (USD millions)	Share value ¹³ (USD (NAV)
LQD	14.1	30,300	308.1	54,113.7	130.13
GDX	39.4	166,000	419.8	16,170.5	33.80

FINRA notes Cboe collected the same trading statistics, where applicable, as above regarding a sample of other ETFs,

as well as the current position limits for options on such ETFs, to draw comparisons in support of proposed

position limit increases for options on the Underlying ETFs (see further discussion below):

Product	ADV (ETF shares millions)	ADV (option contracts)	Shares outstanding (millions)	Fund Market Capitalization (USD millions)	Share value (USD (NAV)	Current position limit
EWZ	29.2	139,400	173.8	6,506.8	33.71	500,000

⁴ See Securities Exchange Act Release No. 40969 (January 22, 1999), 64 FR 4911, 4912–13 (February 1, 1999) (Order Approving File No. SR-CBOE-98-23) (citing H.R. No. IFC-3, 96th Cong., 1st Sess. at 189–91 (Comm. Print 1978)).

⁵ See *supra* note 4, at 4913.

⁶ See e.g., Cboe Rule 8.30; ISE Options 9 Section 13; Nasdaq PHLX Options 9 Section 13; NYSE American Rule 904; NYSE Arca Rule 6.8–0; MIAX Rule 307; BOX Rule 3120 and IM–3120–2; Nasdaq Options 9 Section 13; BX Options 9 Section 13; and BZX Rule 18.7.

⁷ Conventional options are over-the-counter options and are defined in Rule 2360(a)(9) as “(A) any option contract not issued, or subject to issuance, by The Options Clearing Corporation; or (B) an OCC Cleared OTC Option.”

⁸ See Securities Exchange Act Release No. 93525 (November 4, 2021), 86 FR 62584 (November 10, 2021) (Order Approving File No. SR-CBOE-2021-029).

⁹ See e.g., CBOE Rule 8.30, Interpretation and Policy .02.

¹⁰ Average daily volume (ADV) data for ETF shares and option contracts, as well as for ETF

shares and options on the comparative ETFs presented below, are for all of 2020. Additionally, reference to ADV in ETF shares and ETF options, and indexes herein this proposal are for all of calendar year 2020, unless otherwise indicated.

¹¹ Shares Outstanding and Net Asset Values (“NAV”), as well as for the comparative ETFs presented below, are as of April 5, 2021.

¹² Fund Market Capitalization data, as well as for the comparative ETFs presented below, are as of January 14, 2021.

¹³ See *supra* note 11.

Product	ADV (ETF shares millions)	ADV (option contracts)	Shares outstanding (millions)	Fund Market Capitalization (USD millions)	Share value (USD (NAV)	Current position limit
TLT	11.5	111,800	103.7	17,121.3	136.85	500,000
EWJ	8.2	15,500	185.3	13,860.7	69.72	500,000
HYG	30.5	261,600	254.5	24,067.5	86.86	500,000

FINRA echoes the Cboe's belief that, overall, the liquidity in the shares of the Underlying ETFs and in their overlying options, the larger market capitalizations for each of the Underlying ETFs, and the overall market landscape relevant to each of the Underlying ETFs support the proposal to increase the position limits for each option class. Given the robust liquidity in and value of the Underlying ETFs and their component securities, FINRA does not anticipate that the proposed increase in position limits would create significant price movements as the relevant markets are large enough to adequately absorb potential price movements that may be caused by larger trades.

The following analyses for the Underlying ETFs, which FINRA agrees with in support of the proposed rule change, as well as the statistics presented in support thereof, were presented by Cboe in their rule filing, which was approved by the Commission.

LQD tracks the performance of the Markit iBoxx USD Liquid Investment Grade ("IBOXIG") Index, which is an index designed as a subset of the broader U.S. dollar-denominated corporate bond market which can be used as a basis for tradable products, such as ETFs, and is comprised of over 8,000 bonds.¹⁴ From 2019 through 2020, ADV has grown significantly in shares of LQD and in options on LQD, from approximately 9.7 million shares in 2019 to 14.1 million through 2020, and from approximately 8,200 option contracts in 2019 to 30,300 through 2020. LQD also continued to experience significant growth in ADV in the first quarter of 2021 with an ADV of approximately 140,200 option contracts. Further, LQD generally experiences higher ADV in shares than both TLT (11.5 million shares) and EWJ (8.2 million shares) and almost double the ADV in option contracts than EWJ (15,500 option contracts). Options on each EWZ, TLT and EWJ are currently subject to a position limit of 500,000 contracts—the proposed limit for options on LQD. The NAV of LQD is

also higher than, or comparable to, that of the NAV of the ETFs underlying the options that are currently subject to a position limit of 500,000 option contracts (as presented in the table above), which is indicative that the total value of its underlying components is generally higher or comparable. Per the tables above, LQD's total market capitalization of approximately \$54.1 billion is also higher than or comparable to the total market capitalization of the ETFs underlying the options currently subject to a position limit of 500,000 contracts. In addition to this, although there are currently no options listed for trading on the IBOXIG Index, the components¹⁵ of the IBOXIG Index, which can be used in creating a basket of securities that equate to the LQD ETF, are made up of over 8,000 bonds for which the outstanding face value of each must be greater than or equal to \$2 billion.¹⁶ FINRA echoes Cboe's belief that the total value of the bonds in the IBOXIG Index, coupled with LQD's share and option volume, total market capitalization, and NAV price indicates that the market is large enough to absorb potential price movements caused by a large trade in LQD. Also, as evidenced above, trading volume in LQD shares has increased over the past few years and market participants' need for options have continued to grow alongside the ETF. Particularly, Cboe notes in its filing that in the last year, market participants have sought more cost-effective hedging strategies through the use of LQD options as a result of the borrow on other fixed income ETFs, such as HYG. Therefore, FINRA agrees with Cboe's belief that because LQD options are being increasingly utilized as an alternative to similar products, such as HYG options, then it is appropriate that options on LQD be subject to the same 500,000 contract position limit that currently exists for options on HYG.

GDX seeks to replicate as closely as possible the price and yield performance of the NYSE Arca Gold Miners ("GDMNTR") Index, which is intended to track the overall performance of companies involved in

the gold mining industry.¹⁷ ADV in GDX options has increased from 2019 through 2020, with an ADV of approximately 117,400 option contracts in 2019 to an ADV of approximately 166,000 option contracts in 2020.

ADV in GDX shares did not increase from 2019 to 2020. GDX options also experienced an ADV of approximately 287,800 option contracts in the first quarter of 2021. The ADV in GDX shares (39.4 million) and options on GDX (166,000 option contracts) are greater than the ADV in EWZ (29.2 million shares and 139,300 option contracts), TLT (11.5 million shares and 111,800 option contracts), EWJ (8.2 million shares and 15,500 option contracts) and HYG (30.5 million shares and 261,600 option contracts), each of which is currently subject to a position limit of 500,000 option contracts—the proposed limit for options on GDX. GDX also experiences a comparable, or higher, market capitalization (approximately \$16.2 billion) than EWZ, TLT and EWJ. Cboe noted that many of the Brazil-based gold mining constituents included in GDX are also included in EWZ, which tracks the investment results of an index composed of Brazilian equities, and that there have been no identified issues with the continued listing and trading of EWZ options or any adverse market impact on EWZ in connection with the current 500,000 position limit in place for EWZ options. Additionally, like that of LQD above, there is currently no index option analogue for the GDX ETF on the GDMNTR Index approved for options trading, however, the components of the GDMNTR Index, which can be used to create the GDX ETF, currently must each have a market capitalization greater than \$750 million, an ADV of at least 50,000 shares, and an average daily value traded of at least \$1 million in order to be eligible for inclusion in the GDMNTR Index. FINRA echoes Cboe's belief that the GDMNTR Index component inclusion requirements, as well as GDX's share and option volume and total market capitalization, indicate that the GDX market is sufficiently large and liquid enough to absorb price

¹⁴ See Markit iBoxx USD Liquid Investment Grade Index, available at <https://cdn.ihsmarkit.com/www/pdf/MKT-iBoxx-USD-Liquid-Investment-Grade-Index-factsheet.pdf> (March 3, 2021).

¹⁵ Investment grade corporate bonds.

¹⁶ See *supra* note 14.

¹⁷ See VanEck Vectors Gold Miners ETF, available at <https://www.vaneck.com/library/vaneck-vectors-etfs/gdx-fact-sheet-pdf> (February 28, 2022).

movements as a result of potentially oversized trades.

FINRA believes that increasing the position limits for conventional options subject to the proposed rule change would lead to a more liquid and competitive market for these options, which will benefit customers interested in these products.

Creation and Redemption for ETFs

FINRA believes that the creation and redemption process for ETFs subject to this proposed rule change will lessen the potential for manipulative activity with options on the Underlying ETFs. Regarding ETFs, when an ETF provider wants to create more shares, it looks to an Authorized Participant (generally a market maker or other large financial institution) to acquire the securities the ETF is to hold. For instance, when an ETF is designed to track the performance of an index, the Authorized Participant can purchase all the constituent securities in the exact same weight as the index, then deliver those shares to the ETF provider. In exchange, the ETF provider gives the Authorized Participant a block of equally valued ETF shares, on a one-for-one fair value basis. The price is based on the net asset value, not the market value at which the ETF is trading. The creation of new ETF units can be conducted during an entire trading day, and is not subject to position limits. This process works in reverse where the ETF provider seeks to decrease the number of shares that are available to trade. The applicable creation and redemption processes for the Underlying ETFs creates a direct link to the underlying components of the ETF and serves to mitigate potential price impact of the ETF shares that might otherwise result from increased position limits for the options on the Underlying ETFs.

FINRA understands that the ETF creation and redemption process seeks to keep an ETF's share price trading in line with the product's underlying net asset value. Because an ETF trades like a stock, its share price will fluctuate during the trading day, due to simple supply and demand. If demand to buy an ETF is high, for instance, the ETF's share price might rise above the value of its underlying securities. When this happens, the Authorized Participant or issuer believes the ETF may now be overpriced, so it may buy shares of the component securities and then sell ETF shares in the open market. This may drive the ETF's share price back toward the underlying net asset value or indicative index value. Likewise, if the ETF share price starts trading at a

discount to the securities it holds or its index components, the Authorized Participant or issuer can buy shares of the ETF and redeem them for the underlying securities or index component instruments. Buying undervalued ETF shares may drive the share price of the ETF back toward fair value. This arbitrage process helps to keep an ETF's share price in line with the value of its underlying portfolio or index components.

Surveillance and Reporting

FINRA believes that the increased position limits provisions are appropriate in light of the existing surveillance procedures and reporting requirements at FINRA,¹⁸ the options exchanges, and at the several clearing firms, which are capable of properly identifying unusual or illegal trading activity. These procedures use daily monitoring of market movements by automated surveillance techniques to identify unusual activity in both options and underlying stocks.¹⁹

In addition, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.²⁰ Options positions are part of any reportable positions and cannot legally be hidden. Moreover, the previously noted Rule 2360(b)(5) requirement that members must file reports with FINRA for any customer that held aggregate large long or short positions of any single class for the previous day will continue to serve as an important part of FINRA's surveillance efforts.

Finally, FINRA believes that the current financial requirements imposed by FINRA and by the Commission adequately address financial responsibility concerns that a member or its customer will maintain an inordinately large unhedged position in any option with a higher position limit. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin or capital that a member must maintain for a large position. Under Rule 4210(f)(8)(A), FINRA also may impose a higher margin requirement upon a member when FINRA determines a higher requirement is warranted. In addition, the Commission's net capital rule²¹ imposes a capital charge on members to the extent of any margin

¹⁸ See Rule 2360(b)(5) for the options reporting requirements.

¹⁹ These procedures have been effective for the surveillance of options trading and will continue to be employed.

²⁰ 17 CFR 240.13d-1.

²¹ 17 CFR 240.15c3-1.

deficiency resulting from the higher margin requirement.

FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so FINRA can implement the proposed rule change immediately.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²² which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change promotes consistent regulation by harmonizing position limits with those of the other self-regulatory organizations. FINRA further believes that increasing the position limit on conventional options promotes consistent regulation by harmonizing the position limit with its standardized counterpart. In addition, FINRA believes the proposed rule change will be beneficial to large market makers and institutions (which generally have the greatest ability to provide liquidity and depth in products that may be subject to higher position limits as has been the case with recently approved increased position limits),²³ as well as retail traders and public customers, by providing them with a more effective trading and hedging vehicle.

In addition, FINRA believes that the structure of the Underlying ETFs, the considerable market capitalization of the funds, underlying component securities and indexed component securities, and the liquidity of the markets for the applicable options and underlying component securities will mitigate concerns regarding potential manipulation of the products or disruption of the underlying markets upon increasing the relevant position limits. As a general principle, increases in market capitalizations, active trading volume, and deep liquidity of securities tend to deter manipulation or disruption. This general principle applies to the recently observed increased levels of market capitalization, trading volume, and liquidity in shares of and options on the Underlying ETFs (as described above). FINRA does not believe that the options

²² 15 U.S.C. 78o-3(b)(6).

²³ See *supra* note 8.

markets or underlying markets would become susceptible to manipulation or disruption as a result of the proposed position limit increases.

Increased position limits for select actively traded options, such as those proposed herein, are not novel and have been previously approved by the Commission.²⁴ Furthermore, FINRA notes that the proposed position limits for options on LQD and GDX are consistent with existing position limits for options on comparable ETFs in Rule 2360(b)(3)(A)(iii)a.6.

FINRA's existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior that might arise from changing position and exercise limits.

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

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

Economic Impact Analysis

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects, transfers of wealth, relative to the current baseline, and the alternatives FINRA considered in assessing how to best meet its regulatory objectives.

Regulatory Objective

FINRA is proposing to amend Rule 2360 to harmonize FINRA's position limits for conventional options with the position limit for standardized options.²⁵

Economic Baseline

Per FINRA Rule 2360(b)(3)(A)(iii) conventional equity options are subject to a basic position limit of 25,000 contracts or higher for conventional option contracts on securities that underlie exchange-traded options qualifying for a higher tier as determined by option exchange rules. The existing position limits for conventional options on LQD and GDX are 250,000 contracts. Cboe has recently

increased position limits for options on these ETFs.

Economic Impact

Benefits

As noted above, the proposed rule change would amend Rule 2360 to harmonize FINRA's position limits for conventional options with the position limits for standardized options.²⁶ If the existing position limits for conventional equity options on select ETFs constrains trading in these ETFs, then investors may be able to better manage risk and trade on information when the position limit is relaxed. In general, the improvement in risk management and informational efficiency may increase more when position limits are increased. We acknowledge, however, that the conventional options on these ETFs, the ETFs themselves, and the securities underlying these ETFs are liquid, so improvements in informational efficiency may be relatively small.

For investors that trade conventional equity options, there is likely to be a natural size for an executed order that minimizes fixed and variable transaction costs, including but not limited to, the bid-ask spread, price impact, and transaction fees. If the existing position limits for conventional equity options on select ETFs constrains the order size such that fixed and variable transaction costs are higher than optimal, then investors may benefit if the new position limit is no less than the natural size. In such an event, the cost to hedge an ETF would decline, thereby making it less costly to manage downside risk.

In addition, if the existing position limits serve as a constraint, then an increase in the position limits for conventional options on select ETFs could permit investors to more easily find a counterparty. If the number of counterparties increases, then the cost of hedging should decline as the half-spread narrows, thereby making it less expensive to manage downside risk.

The extent of the constraint imposed by the current limit on conventional options is related to the ability of an investor to achieve similar economic exposure through other means. If there are other securities, such as an option on a closely related index, that exist and provide similar economic exposure less expensively, then the value of lessening the position limits on conventional options on ETFs is lower.

Members may rely on information and data feeds from the Options Clearing

Corporation to assist in their monitoring position limits. Because position limits on the standardized and conventional side have traditionally been consistent, members have relied on this feed for both standardized and conventional options. If the position limits between standardized and conventional options are conformed, then the cost from monitoring position limits should decline for member firms. Having the same position limits on standardized and conventional options, reduces the potential for excess loss that may be incurred when different limits are applied to the standardized versus conventional options on the same ETF. The economic loss may arise from building and maintaining trading and compliance systems to support the different regimes. Furthermore, the harmonization of position limits on standardized and conventional options eliminates the potential risk and cost arising from regulatory arbitrage.

Costs

The proposed rule change may impose limited operational cost on member firms that trade conventional options on ETFs, as these same firms would need to revise position limits that are used in trading systems. However, the proposed rule change should not impose additional costs, because it is difficult to disrupt or manipulate the underlying market, create an incentive to disrupt or manipulate the underlying market for the purpose of profiting from the options position, or disrupt or manipulate the options market for conventional options on ETFs affected by this proposed rule. ETFs that underlie options subject to the proposed rule change are highly liquid and are based on a broad set of highly liquid securities, which makes the market difficult to manipulate or disrupt. In fact, options on certain broad-based security indexes have no position limits. Furthermore, the applicable creation and redemption process for these ETFs reduces the potential for disruptive or manipulative activity. New ETF units may be created at any time during the trading day and are not subject to position limits. Consequently, there is a direct link between the underlying components of the ETF, which keeps ETF's share prices trading in line with the ETF's underlying net asset value.

Alternatives

No further alternatives are under consideration.

²⁴ See *supra* note 8. See also Securities Exchange Act Release Nos. 88768 (April 29, 2020), 85 FR 26736 (May 5, 2020) (Order Approving File No. SR-CBOE-2020-015); 83415 (June 12, 2018), 83 FR 28274 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-CBOE-2018-042); and 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012) (Order Approving File No. SR-CBOE-2012-066).

²⁵ See *supra* note 8.

²⁶ See *supra* note 8.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act²⁷ and Rule 19b-4(f)(6)²⁸ thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)²⁹ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),³⁰ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. FINRA has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative upon filing. FINRA states that waiver of the operative delay would be consistent with the protection of investors and the public interest because it would enable FINRA to immediately harmonize position limits with those of other self-regulatory organizations to ensure consistent regulation. For this reason, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.³¹

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if

it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-FINRA-2022-007 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-FINRA-2022-007. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions

should refer to File Number SR-FINRA-2022-007 and should be submitted on or before May 5, 2022.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³²

Jill M. Peterson,
Assistant Secretary.

[FR Doc. 2022-07946 Filed 4-13-22; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 34556; File No. 812-15255]

Stellus Capital Investment Corporation, et al.

April 11, 2022.

AGENCY: Securities and Exchange Commission ("Commission").

ACTION: Notice.

Notice of application for an order ("Order") under sections 17(d) and 57(i) of the Investment Company Act of 1940 (the "Act") and rule 17d-1 under the Act to permit certain joint transactions otherwise prohibited by sections 17(d) and 57(a)(4) of the Act and rule 17d-1 under the Act.

SUMMARY OF APPLICATION: Applicants request an Order to permit certain business development companies ("BDCs") and certain closed-end management investment companies to co-invest in portfolio companies with each other and with affiliated investment entities.

APPLICANTS: Stellus Capital Investment Corporation (the "Company"); Stellus Private Credit BDC (the "SPBDC"); Stellus Credit Master Fund I, LLC, Stellus Credit VCOC Fund I, LLC, Stellus Credit Master Fund II, LLC, Stellus Credit VCOC Fund II, LLC, Stellus Credit VCOC Fund III, LLC, Stellus Credit Master Fund III, LLC, Stellus Senior Secured Loan Fund, LLC, Stellus Credit Funds Investor A, LLC, and Stellus Credit Funds Investor B, LP (collectively, "Existing Affiliated Funds"); Stellus Capital SBIC LP, Stellus Capital SBIC GP, LLC, SCIC-Consolidated Blocker 1, Inc., SCIC-CC Blocker 1, Inc., SCIC-ERC Blocker 1, Inc., SCIC-SKP Blocker 1, Inc., SCIC-APE Blocker 1, Inc., SCIC-HUF Blocker 1, Inc., SCIC-Hollander Blocker 1, Inc., Stellus Capital SBIC II, LP, SCIC-Invincible Blocker 1, Inc., SCIC-FBO Blocker 1, Inc., SCIC-ICD Blocker 1, Inc., SCIC-Venbrook Blocker 1, Inc., PBDC Consolidated Blocker, LLC

³² 17 CFR 200.30-3(a)(12).

²⁷ 15 U.S.C. 78s(b)(3)(A).

²⁸ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. FINRA has satisfied this requirement.

²⁹ 17 CFR 240.19b-4(f)(6).

³⁰ 17 CFR 240.19b-4(f)(6)(iii).

³¹ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).