SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–64695; File No. SR–Phlx–2011–58]

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Order Granting Approval of Proposed Rule Change To Increase the Position Limit for Options on the Standard and Poor's® Depositary Receipts (SPDRs®)

June 17, 2011.

I. Introduction

On April 18, 2011, NASDAQ OMX PHLX LLC (''Exchange'' or ''Phlx'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to increase the position and exercise limits for options on Standard and Poor's Depositary Receipts (''SPDRs®'' or ''SPY''). The proposed rule change was published for comment in the **Federal Register** on May 3, 2011.[3] The Commission received one comment letter in response to the proposal.[4] This order approves the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to amend Phlx Rule 1001 to increase the position limit applicable to options on SPDRs®, which trade under the symbol SPY, from 300,000 to 900,000 contracts on the same side of the market. The Exchange notes that options on Nasdaq-100 Index® Tracking Stock (''QQQ℠'') [5]—to which, Phlx believes, SPY options are most comparable for these purposes—have a position limit of 900,000 contracts.

In particular, Phlx represents that options on SPY traded a total of 33,341,698 contracts across all exchanges from March 1, 2011 through March 16, 2011. In contrast, over the same time period options on the QQQ traded a total of 8,730,718 contracts (less than 26.2% of the volume of options on SPY.) The Phlx further represents that, for 2010, options on SPY had an average daily trading volume of 3.63 million contracts, while options on QQQs had an average daily trading volume of 963,502. In addition, the option notional value [6] of SPY options on December 31, 2010, was $177,823.76 million, while the optional notional value of QQQ options on the same date was $27,141.91 million.

With regard to the underlying ETFs, Phlx represents that, for 2010, the SPY had an average daily trading volume of 210,232,241 shares with an average dollar volume of $20,794 million, while the QQQ had an average daily trading volume of 85,602,200 shares with an average dollar volume of $3,593 million. In addition, the market capitalization of the SPY was $90,280.71 million on December 31, 2010, while the market capitalization of the QQQ on that date was $23,564.8 million.

Phlx argues that the current position limit of 300,000 contracts for SPY options prevents large customers, such as mutual funds and pension funds, from using these options to gain meaningful exposure and hedging protection, which it believes can result in lost liquidity in both the options market and the equity market. In addition, the Exchange believes that increasing the limit to 900,000 contracts would lead to a more liquid and competitive market environment for options on SPDRs® that would benefit customers interested in this product.

Phlx adds that traders who trade SPY options to hedge positions in SPY and in SPX options [7] have indicated that the current position limit is too restrictive, and the Exchange believes that this may adversely affect traders' (and the Exchange's) ability to provide liquidity in this product.

In addition, Phlx states that its reporting requirements[8] and surveillance procedures,[9] as well as the reporting requirements and surveillance procedures other markets and of clearing firms, are capable of properly identifying unusual and/or illegal trading activity.

III. Discussion and Commission's Findings

The Commission received one comment letter on the proposed rule change, from NYSE Euronext, on behalf of the NYSE Amex and NYSE Arca options exchanges.[10] The comment letter supported the proposal, and expressed agreement with several of the statements made by Phlx therein.

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act [11] and the rules and regulations thereunder applicable to a national securities exchange.[12] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[13] which requires, among other things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

Position and exercise limits serve as a regulatory tool designed to address manipulative schemes and adverse market impact surrounding the use of options. Since the inception of standardized options trading, the options exchanges have had rules limiting the aggregate number of options contracts that a member or customer may hold or exercise.[14] These position and exercise limits are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate the underlying market so as to benefit the

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 64348 (April 27, 2011), 76 FR 24951 (''Notice'').

[4] *See* letter from Janet L. McGinness, SVP–Legal & Corporate Secretary, Legal & Government Affairs, NYSE Euronext, to Ms. Elizabeth M. Murphy, Secretary, Commission, dated May 24, 2011 (NYSE Letter). The comment letter was submitted by NYSE Euronext on behalf of its subsidiary options exchanges, NYSE Amex LLC (''NYSE Amex'') and NYSE Arca Inc. (''NYSE Arca'').

[5] QQQ℠, Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, and Nasdaq-100 Index Tracking Stock℠, are trademarks or service marks of The Nasdaq Stock Market, Inc.

[6] Phlx describes notional value in this instance as the product of OI × Close × 100, where OI is the underlying security's open interest (in contracts) and Close is the closing price of the underlying security on December 31, 2011.

[7] *See also* NYSE Euronext Letter, *supra* note 4, stating that SPX options are considered by many to be economically equivalent to SPY options.

[8] Phlx represents that, as with options on QQQs, each member or member organization of the Exchange that maintains a position in SPY options on the same side of the market, for its own account or for the account of a customer, would be required, pursuant to Phlx Rule 1003, to report certain information, including, but not limited to, the size of the option position, whether the position is hedged, and, if so, a description of the hedge and, if applicable, the collateral used to carry the position. The requirement applies to positions in excess of 10,000 contracts on the same side of the market. In addition, Phlx states, the general reporting requirement for customer accounts that maintain an aggregate position of 200 or more option contracts would remain at this level for SPY options.

[9] The Exchange states that these procedures utilize daily monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and underlying stocks.

[10] *See supra* note 4.

[11] 15 U.S.C. 78f.

[12] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

[13] 15 U.S.C. 78f(b)(5).

[14] *See, e.g.,* Securities Exchange Act Release No. 45236 (January 4, 2002), 67 FR 1378 (January 10, 2002) (SR–Amex–2001–42).

options position.[15] In particular, position and exercise limits are designed to minimize the potential for mini-manipulations and for corners or squeezes of the underlying market.[16] In addition, such limits serve to reduce the possibility for disruption of the options market itself, especially in illiquid classes.[17] As discussed below, over time, the Commission has approved options exchanges' proposals to increase these limits for options products overlying certain ETFs where there is considerable liquidity in both the underlying cash markets and the options markets.

The Commission believes that it is reasonable for the Exchange to increase position limits for options on SPY to 900,000 contracts (the same level currently applicable to the QQQ options). As in the case of the markets for QQQ options and for the underlying ETF, the markets for standardized options on SPY and the SPY itself have substantial trading volume and liquidity. Indeed, Phlx cites statistics [18] showing that, while options on SPY and options on QQQ both are in the top ranks of equity options in terms of trading volume, SPY options exceeded QQQ options by a significant margin—both in terms of the total volume traded for a sample period in March of this year, and in terms of average daily volume for the year 2010. Similarly, the Exchange cites statistics regarding the underlying ETFs, showing that SPY exceeded QQQ significantly in average daily trading volume and average dollar volume for the year.

The Commission believes that increasing position limits on the highly liquid SPY options to the same level currently applicable to the QQQ options represents the next step of a measured approach to position limits on these options, which have increased steadily over a number of years to their current levels.[19] Further, the Commission expects that the Exchange will continue to monitor trading in the SPY options for the purpose of discovering and sanctioning manipulative acts and practices, and to reassess the position and exercise limits, if and when appropriate, in light of its findings.[20]

Accordingly, as stated above, given the measure of liquidity for SPY, the Commission believes that increasing position limits in the SPY options to 900,000 contracts is consistent with Section 6(b)(5) of the Act,[21] which requires 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.

IV. Conclusion

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,[22] that the proposed rule change (SR–Phlx-2011–58) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[23]

Cathy H. Ahn,

Deputy Secretary.

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[15] *See, e.g.,* Securities Exchange Act Release No. 47346 (February 11, 2003), 68 FR 8316 (February 20, 2003) (SR–CBOE–2002–26).

[16] *Id.*

[17] *Id.*

[18] *See supra* Section II.

[19] The Commission's incremental approach to approving changes in position and exercise limits is well-established. Equity option position limits have been gradually expanded from 1,000 in 1973 to maximum levels of 250,000 contracts for most of the largest and most actively-traded standardized equity options, with higher limits allowed for certain ETF options—QQQ (900,000), SPY (300,000), IWM (500,000) and DIA (300,000). In 1999, the Commission approved exchange proposals to raise position and exercise limits on standardized equity options to a range of between 13,500 and 75,000 contracts. *See* Securities Exchange Act Release No. 40875 (December 31, 1998), 64 FR 1842 (January 12, 1999) (SR–CBOE–98–25; SR–Amex–98–22; SR–PCX–98–33; SR–Phlx–98–36). In 2003, the Commission approved an increase in the position and exercise limits for options on DIA to the current 300,000 contracts. *See* Securities Exchange Act Release Nos. 47346 (February 11, 2003), 68 FR 8316 (February 20, 2003) (SR–CBOE–2002–26) and 57852 (May 22, 2008), 73 FR 31162 (May 30, 2008) (SR–Amex–2008–41). Similarly, in 2005, the Commission approved an increase in the position and exercise limits for options on SPY to 300,000 contracts. *See* Securities Exchange Act Release Nos. 51041 (January 14, 2005), 70 FR 3408 (January 24, 2005) (SR–CBOE–2005–06) and 51043 (January 14, 2005), 70 FR 3402 (January 24, 2005) (SR–Amex–2005–06). Since 2001, the Commission has twice approved increases in position and exercise limits for options on QQQ. Initially, the Commission approved an increase to 300,000 contracts, and later, pursuant to a pilot program that commenced in March 2005 and was adopted by all of the options exchanges, increased position and exercise limits for options on the QQQQ to the current 900,000. *See* Securities Exchange Act Release Nos. 45309 (January 18, 2002), 67 FR 3757 (January 25, 2002) (SR–CBOE–2001–44) and 45236 (January 4, 2002), 67 FR 1378 (January 10, 2002) (SR–Amex–2001–42). Another pilot program, which commenced in 2007 and was adopted by all of the options exchanges, increased the position and exercise limits for IWM options to the current 500,000 contracts. Both of these pilots, which also raised standardized equity option position limits to the current range of between 25,000 and 250,000 contracts, were permanently approved by the Commission in 2008. *See* Securities Exchange Act Release Nos. 57352 (February 19, 2008), 73 FR 10076 (February 25, 2008) (SR–CBOE–2008–07) and 57415 (March 3, 2008), 73 FR 12479 (March 7, 2008) (SR–Amex–2008–16).

[20] Phlx states that its reporting requirements and surveillance procedures, as well as the reporting requirements and surveillance procedures other markets and of clearing firms, are capable of properly identifying unusual and/or illegal trading activity.

[21] 15 U.S.C. 78f(b)(5).

[22] 15 U.S.C. 78s(b)(1).

[23] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–64697; File No. SR–OCC–2011–07]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Provide an Interpretation to Rule 401 To Allow Clearing Members To Use OCC Systems To Update Certain Non-critical Trade Data With Respect to Exchange Transactions Involving Securities Options

June 17, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on June 7, 2011, The Options Clearing Corporation (''OCC'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change described in Items I, II, and III below, which Items have been prepared primarily by OCC. OCC filed the proposal pursuant to Section 19(b)(3)(A)(iii) of the Act [2] and Rule 19b–4(f)(4) [3] thereunder so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the rule change from interested parties.

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

The proposed rule change will provide an interpretation to Rule 401 to allow clearing members to use OCC systems to update certain non-critical trade data with respect to exchange transactions involving securities options provided such updates do not contravene any rule of the exchange on which such transactions were effected.

[1] 15 U.S.C. 78s(b)(1).

[2] 15 U.S.C. 78s(b)(3)(A)(iii).

[3] 17 CFR 240.19b–4(f)(4).