

**PREVIOUSLY ANNOUNCED TIME AND DATE OF THE MEETING:** Thursday, March 29, 2018 at 2:00 p.m.

**CHANGES IN THE MEETING:** The Closed Meeting scheduled for Thursday, March 29, 2018 at 2:00 p.m., has been cancelled.

**CONTACT PERSON FOR MORE INFORMATION:** For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact Brent J. Fields of the Office of the Secretary at (202) 551-5400.

Dated: March 23, 2018.

**Brent J. Fields,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82931; File No. SR-MIAX-2018-10]

### Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Exchange Rule 307, Position Limits, and Exchange Rule 309, Exercise Limits

March 22, 2018.

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) <sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 8, 2018, Miami International Securities Exchange, LLC (“MIAX Options” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is filing a proposal to amend Exchange Rules 307, Position Limits, Interpretations and Policies .01, and 309, Exercise Limits, Interpretations and Policies .01, to increase the position and exercise limits for options on the following exchange traded funds (“ETFs”): iShares China Large-Cap ETF (“FXI”), iShares MSCI Emerging Markets ETF (“EEM”), iShares Russell 2000 ETF (“IWM”), iShares MSCI EAFE ETF (“EFA”), iShares MSCI Brazil

Capped ETF (“EWZ”), iShares 20+ Year Treasury Bond Fund ETF (“TLT”), PowerShares QQQ Trust (“QQQ”), and iShares MSCI Japan ETF (“EWJ”).

The text of the proposed rule change is available on the Exchange’s website at <http://www.miaxoptions.com/rule-filings/> at MIAX Options’ principal office, and at the Commission’s Public Reference Room.

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The purpose of the proposed rule change is to amend Exchange Rules 307, Position Limits, Interpretations and Policies .01, and 309, Exercise Limits, Interpretations and Policies .01, to increase position and exercise limits, respectively, for options on the following ETFs: FXI, EEM, IWM, EFA, EWZ, TLT, QQQ, EWJ.

Market participants’ trading activity has been adversely impacted by the current position limits as such limits have caused options trading in the symbols subject to this proposal to move from exchanges to the over-the-counter market. The Exchange submits this proposal with the understanding that market participants’ on-exchange activity has been hindered by the existing position limits, causing them to be unable to provide additional liquidity not just on the Exchange, but also on other options exchanges on which they participate.<sup>3</sup> The Exchange understands that certain market participants wishing to make trades involving a large number of options

<sup>3</sup> Choe has received approval from the Commission for its proposed rule change to increase its position limits for the following ETFs: FXI, EEM, IWM, EFA, EWZ, TLT, QQQ, EWJ. See Securities Exchange Act Release No. 82770 (February 23, 2018) (Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2) (SR-CBOE-2017-057).

contracts in the symbols subject to this proposal are opting to execute those trades in the over-the-counter market. The over-the-counter transactions occur via bi-lateral agreements, the terms of which are not publicly disclosed to other market participants. Therefore, these large trades do not contribute to the price discovery process performed on a lit market.

Position limits are designed to address potential manipulative schemes and adverse market impact surrounding the use of options, such as disrupting the market in the security underlying the options. The potential manipulative schemes and adverse market impact are balanced against the potential of setting the limits so low as to discourage participation in the options market. The level of those position limits must be balanced between curtailing potential manipulation and the cost of preventing potential hedging activity that could be used for legitimate economic purposes. Position limits for options on ETFs, such as those subject to this proposal are determined pursuant to Exchange Rule 307, and vary according to the number of outstanding shares and the trading volume of the underlying stocks or ETFs over the past six-months. The Exchange notes that the ETFs that underlie options subject to this proposal are highly liquid, and are based on a broad set of highly liquid securities and other reference assets. Likewise, the Commission has recognized the liquidity of the securities comprising the underlying interest of the SPDR S&P 500 ETF (“SPY”) in permitting no position limits on SPY options since 2012,<sup>4</sup> and expanded position limits for options on EEM, IWM and QQQ.

The largest in capitalization and the most frequently traded stocks and ETFs have an option position limit of 250,000 contracts (with adjustments for splits, re-capitalizations, etc.) on the same side of the market; and smaller capitalization stocks and ETFs have position limits of 200,000, 75,000, 50,000 or 25,000 contracts (with adjustments for splits, re-capitalizations, etc.) on the same side of the market. Options on FXI, EFA, EWZ, TLT, and EWJ are currently subject to the standard position limit of 250,000 contracts, as set forth in Exchange Rule 307. Interpretation and Policy .01 of Exchange Rule 307 sets forth separate position limits for options on specific ETFs as follows:

- Options on EEM are 500,000 contracts;

<sup>4</sup> See Securities Exchange Act Release Nos. 67672 (August 15, 2012), 77 FR 50750 (August 22, 2012) (SR-NYSEAmex-2012-29); 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091).

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

<sup>2</sup> 17 CFR 240.19b-4.

- Options on IWM are 500,000 contracts; and
- Options on QQQ are 900,000 contracts.

Interpretation and Policy .01 of Exchange Rule 307 also sets forth separate position limits for options on SPY (no limit) and options on DIA (300,000 contracts). However, the Exchange is not proposing to modify the position limits for options on SPY or DIA.

The purpose of this proposal is to amend Rules 307, Position Limits, Interpretations and Policies .01, and 309, Exercise Limits, Interpretations and Policies .01 to double the position and exercise limits for FXI, EEM, IWM, EFA, EWZ, TLT, QQQ, and EWJ. As such, options on FXI, EFA, EWZ, TLT, and EWJ would no longer be subject to the standard position and exercise limits as set forth under Exchange Rules 307 and 309. Accordingly, Interpretations and Policies .01 to Exchange Rule 307 and Interpretations and Policies .01 to Exchange Rule 309 would be amended to set forth that the position and exercise limits for options on FXI, EFA, EWZ, TLT, and EWJ would be 500,000 contracts. These position and exercise limits equal the current position and exercise limits for options on IWM and EEM and are similar to the current position and exercise limits for options on QQQ, as set forth in Interpretations and Policies .01 to Exchange Rule 307 and Interpretations and Policies .01 to Exchange Rule 309.

Interpretations and Policies .01 to Exchange Rule 307 and Interpretations and Policies .01 to Exchange Rule 309 would be further amended to increase the position and exercise limits for the remaining options subject to this proposal as follows:

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

The Exchange’s proposal mirrors that of the Cboe Exchange, Inc. (“Cboe”), which seeks to increase the position and exercise limits for FXI, EEM, IWM, EFA, EWZ, TLT, QQQ, and EWJ which was filed by Cboe on August, 15, 2017.<sup>5</sup>

In support of this proposal, the Exchange represents that the above-listed ETFs qualify for either: (i) The initial listing criteria set forth in Exchange Rule 402(i)(E)(2) for ETFs holding non-U.S. component securities; or (ii) for ETFs listed pursuant to generic listing standards for series of portfolio depository receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement (“CSA”) is not required.<sup>6</sup>

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks.<sup>7</sup> EEM tracks the performance of the MSCI Emerging Markets Index, which is composed of approximately 800 component securities.<sup>8</sup> The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.<sup>9</sup> IWM tracks the performance of the Russell 2000 Index,

which is composed of 2,000 small-cap domestic stocks.<sup>10</sup> EFA tracks the performance of MSCI EAFE Index, which has over 900 component securities.<sup>11</sup> The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.<sup>12</sup> EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil.<sup>13</sup> TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds.<sup>14</sup> QQQ tracks the performance of the Nasdaq-100 Index, which is composed of 100 of the largest domestic and international nonfinancial companies listed on the Nasdaq Stock Market LLC (“Nasdaq”).<sup>15</sup> EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan.<sup>16</sup>

MIAX Options represents that more than 50% of the weight of the securities held by the options subject to this proposal are also subject to a CSA.<sup>17</sup> Additionally, the component securities of the MSCI Emerging Markets Index on which EEM is based for which the primary market is in any one country that is not subject to a CSA do not represent 20% or more of the weight of the MSCI Emerging Markets Index.<sup>18</sup> Finally, the component securities of the MSCI Emerging Markets Index on which EEM is based, for which the primary market is in any two countries that are not subject to CSAs do not represent 33% of more of the weight of the MSCI Emerging Markets Index.<sup>19</sup>

In support of this proposal, the following trading statistics have been compiled.

ETF	2017 ADV	2017 ADV	Shares outstanding (million)	Fund market cap (\$million)
FXI .....	15.08	71,944	78.6	3,343.6
EEM .....	52.12	287,357	797.4	34,926.1
IWM .....	27.46	490,070	253.1	35,809.1
EFA .....	19.42	98,844	1,178.4	78,870.3
EWZ .....	17.08	95,152	159.4	6,023.4
TLT .....	8.53	80,476	60.0	7,442.4

<sup>5</sup> See Securities Exchange Act Release No. 81483 (August 25, 2017), 82 FR 41457 (August 31, 2017) (SR-CBOE-2017-057 Notice of Filing of a Proposed Rule Change To Amend Interpretation and Policy .07 of Exchange Rule 4.11, Position Limits, To Increase the Position Limits for Options on Certain ETFs). See also SR-CBOE-2017-057, Partial Amendment No. 1 (November 22, 2017).

<sup>6</sup> The Exchange notes that the initial listing criteria for options on ETFs that hold non-U.S. component securities are more stringent than the maintenance listing criteria for those same ETF

options. See Exchange Rule 402(i)(E)(2); Exchange Rule 403(g).

<sup>7</sup> See <http://www.ishares.com/us/products/239536/ishares-china-largecap-etf>.

<sup>8</sup> See <http://us.ishares.com/productinfo/fund/overview/EEM.htm>.

<sup>9</sup> See <https://www.msci.com/products/indices/tools/index.html#EM>.

<sup>10</sup> See <https://www.ishares.com/us/products/239710/ishares-russell-2000-etf>.

<sup>11</sup> See <https://www.ishares.com/us/products/239623/>.

<sup>12</sup> See <https://www.msci.com/eafe>.

<sup>13</sup> See <https://www.ishares.com/us/products/239612/ishares-msci-brazil-capped-etf>.

<sup>14</sup> See <https://www.ishares.com/us/products/239454/>.

<sup>15</sup> See <https://indexes.nasdaqomx.com/Index/Overview/NDX>.

<sup>16</sup> See <https://www.ishares.com/us/products/239665/EWJ>.

<sup>17</sup> See Exchange Rule 402(i)(E)(2)(ii).

<sup>18</sup> See Exchange Rule 402(i)(E)(2)(ii)(B).

<sup>19</sup> See Exchange Rule 402(i)(E)(2)(ii)(C).

ETF	2017 ADV	2017 ADV	Shares outstanding (million)	Fund market cap (\$million)
QQQ .....	26.25	579,404	351.6	50,359.7
EWJ .....	6.06	4,715	303.6	16,625.1

The Exchange believes that the liquidity in the underlying ETFs, and the liquidity in the ETF options support its request to increase the position limits for the options subject to this proposal. As to the underlying ETF shares, through July 31, 2017, the year-to-date average daily trading volume was: (i) FXI across all exchanges was 15.08 million shares; (ii) EEM across all exchanges was 52.12 million shares; (iii) IWM across all exchanges was 27.46 million shares; (iv) EFA across all exchanges was 19.42 million shares; (v) EWZ across all exchanges was 17.08 million shares; (vi) TLT across all exchanges was 8.53 million shares; (vii) QQQ across all exchanges was 26.25 million shares; and (viii) EWJ across all exchanges was 6.06 million shares.

In proposing the increased position limits, the Exchange considered the availability of economically equivalent products and their respective position limits. For instance, some of the ETFs underlying options subject to this proposal are based on broad-based indices that underlie cash settled options that are economically equivalent to the ETF options that are the subject of this proposal and have no position limits. Other ETFs are based on broad-based indexes that underlie cash-settled options with position limits reflecting notional values that are larger than the current position limits for ETF analogues (EEM, EFA). Where there was no approved index analogue, the Exchange believes, based on the liquidity, breadth and depth of the underlying market, that the index referenced by the ETF would be considered a broad-based index.<sup>20</sup> The Exchange argues that if certain position limits are appropriate for the options overlying the same index or is an analogue to the basket of securities that the ETF tracks, then those same economically equivalent position limits should be appropriate for the option overlying the ETF. In addition, the market capitalization of the underlying index or reference is large enough to absorb any price movements that may be caused by an oversized trade. Also, the Authorized Participant or issuer may look to the stocks comprising the

analogous underlying index or reference asset when seeking to create additional ETF shares which are part of the creation/redemption process to address supply and demand or to mitigate the price movement of the price of the ETF.

For example, the PowerShares QQQ Trust or QQQ is an ETF that tracks the Nasdaq 100 Index or NDX, which is an index composed of 100 of the largest non-financial securities listed on the Nasdaq Stock Market LLC ("Nasdaq"). Options on NDX are currently subject to no position limits but share similar trading characteristics as QQQ.<sup>21</sup> Based on QQQ's share price of \$154.54<sup>22</sup> and NDX's index level of 6,339.14, approximately 40 contracts of QQQ equals one contract of NDX. Assume that NDX was subject to the standard position limit of 25,000 contracts for broad-based index options under Exchange Rule 1804(a). Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000 contracts for QQQ as NDX's analogue. However, NDX is not subject to position limits and has an average daily trading volume of 15,300 contracts. QQQ is currently subject to a position limit of 900,000 contracts but has a much higher average daily trading volume of 579,404 contracts. Furthermore, NDX currently has a market capitalization of \$17.2 trillion and QQQ has a market capitalization of \$50,359.7 million, and the component securities of NDX, in aggregate, have traded an average of 440 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the QQQ. The Commission has also approved no position limit for NDX, although it has a much lower daily trading volume than its analogue, the QQQ. Therefore, the Exchange believes it is reasonable to increase the position limit for options on the QQQ from 900,000 to 1,800,000 contracts.

The iShare [sic] Russell 2000 ETF or IWM, is an ETF that also tracks the Russell 2000 index or RUT, which is an index composed of 2,000 small-cap domestic companies in the Russell 3000 index. Options on RUT are currently

<sup>21</sup> *Id.*

<sup>22</sup> All share prices used herein are based on the closing price of the security on November 16, 2017. Source: Yahoo Finance.

subject to no position limits but share similar trading characteristics as IWM.<sup>23</sup> Based on IWM's share price of \$144.77 and RUT's index level of 1,486.88, approximately 10 contracts of IWM equals one contract of RUT. Assume that RUT was subject to the standard position limit of 25,000 contracts for broad-based index options under Exchange Rule 1804(a). Based on the above comparison of notional values, this would result in a position limit equivalent to 250,000 contracts for IWM as RUT's analogue. However, RUT is not subject to position limits and has an average daily trading volume of 66,200 contracts. IWM is currently subject to a position limit of 500,000 contracts but has a much higher average daily trading volume of 490,070 contracts. The Commission has approved no position limit for RUT, although it has a much lower average daily trading volume than its analogue, the IWM. Furthermore, RUT currently has a market capitalization of \$2.4 trillion and IWM has a market capitalization of \$35,809.1 million, and the component securities of RUT, in aggregate, have traded an average of 270 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the IWM. Therefore, the Exchange believes it is reasonable to increase the position limit for options on the IWM from 500,000 to 1,000,000 contracts.

EEM tracks the performance of the MSCI Emerging Markets Index or MXEF, which is composed of approximately 800 component securities following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Below makes the same notional value comparisons as made above. Based on EEM's share price of \$47.06 and MXEF's index level of 1,136.45, approximately 24 contracts of EEM equals one contract of MXEF. Assume that MXEF was subject to the standard position limit of 25,000 contracts for broad-based index options under Exchange Rule 1804(a). Based on the above comparison of notional values, this would result in a position limit economically equivalent to 604,000 contracts for EEM as MXEF's

<sup>23</sup> See supra note 20.

<sup>20</sup> Exchange Rule 1804 sets forth the position limits for broad-based index options.

analogue. However, MXEF has an average daily trading volume of 180 contracts. EEM is currently subject to a position limit of 500,000 contracts but has a much higher average daily trading volume of 287,357 contracts. Furthermore, MXEF currently has a market capitalization of \$5.18 trillion and EEM has a market capitalization of \$34,926.1 million, and the component securities of MXEF, in aggregate, have traded an average of 33.6 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the EEM. Therefore, based on the comparison of average daily trading volume, the Exchange believes it is reasonable to increase the position limit for options on the EEM from 500,000 to 1,000,000 contracts.

EFA tracks the performance of the MSCI EAFE Index or MXEA, which has over 900 component securities designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australia and the Far East, excluding the U.S. and Canada. Below makes the same notional value comparison as made above. Based on EFA's share price of \$69.16 and MXEA's index level of 1,986.15, approximately 29 contracts of EFA equals one contract of MXEA. Assume MXEA was subject to the standard position limit of 25,000 contracts for broad-based index options under Exchange Rule 1804(a). Based on the above comparison of notional values, this would result in a position limit economically equivalent to 721,000 contracts for EFA as MXEA's analogue. Furthermore, MXEA currently has a market capitalization of \$18.7 trillion and EFA has a market capitalization of \$78,870.3 million, and the component securities of MXEA, in aggregate, have traded an average of 4.6 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in EFA. However, MXEA has an average daily trading volume of 270 contracts. EFA is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 98,844 contracts. Based on the above comparisons, the Exchange believes it is reasonable to increase the position limit for options on the EFA from 250,000 to 500,000 contracts.

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks. There is currently no index analogue for FXI approved for options trading. However, the FTSE China 50 Index currently has a market capitalization of \$1.7 trillion and FXI has a market capitalization of \$2,623.18

million, both large enough to absorb any price movement caused by a large trade in FXI. The components of the FTSE China 50 Index, in aggregate, have an average daily trading volume of 2.3 billion shares. FXI is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 15.08 million shares. Based on the above comparisons, the Exchange believes it is reasonable to increase the position limit for options on the FXI from 250,000 to 500,000 contracts.

EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil. There is currently no index analogue for EWZ approved for options trading. However, the MSCI Brazil 25/50 Index currently has a market capitalization of \$700 billion and EWZ has a market capitalization of \$6,023.4 million, both large enough to absorb any price movement caused by a large trade in EWZ. The components of the MSCI Brazil 25/50 Index, in aggregate, have an average daily trading volume of 285 million shares. EWZ is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 17.08 million shares. Based on the above comparisons, the Exchange believes it is reasonable to increase the position limit for options on the EWZ from 250,000 to 500,000 contracts.

TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds. There is currently no index analogue for TLT approved for options trading. However, the U.S. Treasury market is one of the largest and most liquid markets in the world, with over \$14 trillion outstanding and turnover of approximately \$500 billion per day. TLT currently has a market capitalization of \$7,442.4 million, both large enough to absorb any price movement caused by a large trade in TLT. Therefore, the potential for manipulation will not increase solely due to the increase in position limits as set forth in this proposal. Based on the above comparisons, the Exchange believes it is reasonable to increase the position limit for options on TLT from 250,000 to 500,000 contracts.

EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan. There is currently no index analogue for EWJ approved for options trading. However, the MSCI Japan Index has a market capitalization of \$3.5 trillion and EWJ has a market capitalization of \$16,625.1 million, and the component securities of the MSCI Japan Index, in

aggregate, have traded an average of 1.1 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in EWJ. EWJ is currently subject to a position limit of 250,000 contracts and has an average daily trading volume of 6.6 million shares. Based on the above comparisons, the Exchange believes it is reasonable to increase the position limit for options on EWJ from 250,000 to 500,000.

The Exchange believes that increasing the position limits for the options subject to this proposal would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in these products. Under the proposal, the reporting requirement for the above options would be unchanged. Thus, the Exchange would still require that each Member that maintains a position in the options on the same side of the market, for its own account or for the account of a customer, to report certain information to the Exchange. This information would include, but would not be limited to, the options' position, whether such position is hedged and, if so, a description of the hedge, and the collateral used to carry the position, if applicable. Exchange Market Makers<sup>24</sup> (including Primary Lead Market-Makers)<sup>25</sup> would continue to be exempt from this reporting requirement, as Market Maker information can be accessed through the Exchange's market surveillance systems. In addition, the general reporting requirement for customer accounts that maintain an aggregate position of 200 or more options contracts would remain at this level for the options subject to this proposal.<sup>26</sup>

The Exchange believes that the existing surveillance procedures and reporting requirements at the Exchange, other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity. In addition, routine oversight inspections of the Exchange's regulatory programs by the Commission have not uncovered any material inconsistencies or shortcomings in the manner in which the Exchange's market surveillance is conducted. These procedures utilize

<sup>24</sup> The term "Market Makers" refers to "Lead Market Makers", "Primary Lead Market Makers" and "Registered Market Makers" collectively. See Exchange Rule 100.

<sup>25</sup> The term "Primary Lead Market Maker" means a Lead Market Maker appointed by the Exchange to act as the Primary Lead Market Maker for the purposes of making markets in securities traded on the Exchange. See Exchange Rule 100.

<sup>26</sup> See Exchange Rule 310 for reporting requirements.

daily monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and underlying stocks.<sup>27</sup> Furthermore, large holdings must be disclosed to the Commission by way of Schedules 13D or 13G.<sup>28</sup> The positions for options subject to this proposal are part of any reportable positions and, thus, cannot be legally hidden. Moreover, the Exchange's requirement that Members file reports with the Exchange for any customer who held aggregate large long or short positions of any single class for the previous day will continue to serve as an important part of the Exchange's surveillance efforts.

The Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns that a Member or its customer may try to maintain an inordinately large unhedged position in the options subject to this proposal. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin and/or capital that a Member must maintain for a large position held by itself or by its customer.<sup>29</sup> In addition, Rule 15c3-1<sup>30</sup> imposes a capital charge on Members to the extent of any margin deficiency resulting from the higher margin requirement.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>31</sup> Specifically, the proposal is consistent with Section 6(b)(5) of the Act<sup>32</sup> because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, to protect investors and the public interest. The current position limits for the options subject to this proposal have inhibited the ability of

Market Makers to make markets on the Exchange. Specifically, the proposal is designed to encourage Market Makers to shift liquidity from over the counter markets onto the Exchange, which will enhance the process of price discovery conducted on the Exchange through increased order flow. The proposal will also benefit institutional investors as well as retail traders, and public customers, by providing them with a more effective trading and hedging vehicle. In addition, the Exchange believes that the structure of the options subject to this proposal and the considerable liquidity of the market for those options diminishes the opportunity to manipulate this product and disrupt the underlying market that a lower position limit may protect against.

Increased position limits for select actively traded options, such as that proposed herein, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved, on a pilot basis, eliminating position limits for options on the SPDR S&P 500 ETF ("SPY").<sup>33</sup> Additionally, the Commission has approved similar proposed rule changes by other exchanges to increase position and exercise limits for options on highly liquid, actively-traded ETFs,<sup>34</sup> including a proposal to permanently eliminate the position and exercise limits for options overlaying the S&P 500 Index, S&P 100 Index, Dow Jones Industrial Average, and Nasdaq 100 Index.<sup>35</sup> In approving the permanent elimination of position and exercise limits, the Commission relied heavily upon the exchange's surveillance capabilities, the Commission expressed trust in the enhanced surveillance and

reporting safeguards that the exchange took in order to detect and deter possible manipulative behavior which might arise from eliminating position and exercise limits.<sup>36</sup> Furthermore, as described more fully above, options on other ETFs have the position limits proposed herein, but their trading volumes are significantly lower than the ETFs subject to the proposed rule change.

Furthermore, the proposed position limits set forth in this proposal would continue to address potential manipulative activity while allowing for potential hedging activity for appropriate economic purposes. The creation and redemption process for these ETFs also lessens the potential for manipulative activity. When an ETF company wants to create more ETF shares, it looks to an Authorized Participant, which is a market maker or other large financial institution, to acquire the securities the ETF is to hold. For instance, IWM is designed to track the performance of the Russell 2000 Index, the Authorized Participant will purchase all the Russell 2000 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 all trading day and is not subject to position limits. This process can also work in reverse where the ETF company seeks to decrease the number of shares that are available to trade. The creation and redemption process, therefore, 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.

The ETF creation and redemption seeks to keep ETF share prices trading in line with the ETF's underlying net asset value. Because an ETF trades like a stock, its 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 believes the ETF may now be overpriced, and can buy the underlying shares that compose the ETF and then sell the ETF shares on the open market. This should help drive the ETF's share price back toward fair value. Likewise,

<sup>27</sup> These procedures have been effective for the surveillance of trading the options subject to this proposal and will continue to be employed.

<sup>28</sup> 17 CFR 240.13d-1.

<sup>29</sup> See Exchange Rule 1502 for a description of margin requirements.

<sup>30</sup> 17 CFR 240.15c3-1.

<sup>31</sup> 15 U.S.C. 78f(b).

<sup>32</sup> 15 U.S.C. 78f(b)(5).

<sup>33</sup> See Securities Exchange Act Release Nos. 67672 (August 15, 2012), 77 FR 50750 (August 22, 2012) (SR-NYSEAmex-2012-29); 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091).

<sup>34</sup> See Securities Exchange Act Release Nos. 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012) (SR-CBOE-2012-066); Securities Exchange Act Release No. 68478 (December 19, 2012), 77 FR 76132 (December 26, 2012) (SR-BOX-2012-023); Securities Exchange Act Release No. 68398 (December 11, 2012), 77 FR 74700 (December 17, 2012) (SR-ISE-2012-093); Securities Exchange Act Release No. 68293 (November 27, 2012), 77 FR 71644 (December 3, 2012) (SR-Phlx-2012-132); Securities Exchange Act Release No. 68358 (December 5, 2012), 77 FR 73708 (December 11, 2012) (SR-NYSE MKT-2012-071); Securities Exchange Act Release No. 68359 (December 5, 2012), 77 FR 73716 (December 11, 2012) (SR-NYSE Arca-2012-132); and .69457 (April 25, 2012), 78 FR 25502 (May 1, 2013) (SR-MIAX-2013-17).

<sup>35</sup> See Securities Exchange Act Release Nos. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (SR-CBOE-2001-22); 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (SR-CBOE-2005-41) ("NDX Approval").

<sup>36</sup> See NDX Approval at 62149.

if the ETF starts trading at a discount to the securities it holds, the Authorized Participant can buy shares of the ETF and redeem them for the underlying securities. Buying undervalued ETF shares should drive the price of the ETF back toward fair value. This arbitrage process helps to keep an ETF's price in line with the value of its underlying portfolio.

Lastly, the Commission expressed the belief that removing position and exercise limits may bring additional depth and liquidity without increasing concerns regarding intermarket manipulation or disruption of the options or the underlying securities.<sup>37</sup> The Exchange's existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior which might arise from eliminating position and exercise limits.

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

MIAX Options 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. The Exchange believes the entire proposal is consistent with Section (6)(b)(8) of the Act<sup>38</sup> in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. On the contrary, the Exchange believes the proposal promotes competition because it will enable the listed option exchanges to attract additional order flow from the over-the-counter market, who in turn compete for those orders.<sup>39</sup> The Exchange believes that the proposed rule change will result in additional opportunities to achieve the investment and trading objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general.

In this regard and as indicated above, the Exchange notes that the rule change is being proposed as a competitive response to changes put in place at Cboe. MIAX Options believes this proposed rule change is necessary to permit fair competition among the options exchanges and to establish uniform position limits for additional multiply listed option classes.

#### *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 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 from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>40</sup> and Rule 19b-4(f)(6) thereunder.<sup>41</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>42</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>43</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative upon filing. The Exchange states that waiver of the operative delay would be consistent with the protection of investors and the public interest because it would allow the Exchange to immediately increase its position and exercise limits for the products subject to this proposal to those of Cboe, which the Exchange believes will ensure fair competition among exchanges and provide consistency and uniformity among members of both Cboe and MIAX Options by subjecting members of both exchanges to the same position and exercise limits for these multiply-listed options classes. 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 as operative upon filing.<sup>44</sup>

<sup>40</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>41</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the 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.

<sup>42</sup> 17 CFR 240.19b-4(f)(6).

<sup>43</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>44</sup> For purposes only of waiving the 30-day operative delay, the Commission has also

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](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2018-10 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-MIAX-2018-10. 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 such filing also will be available for inspection and copying at the principal

considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>37</sup> *Id.*

<sup>38</sup> 15 U.S.C. 78f(b)(8).

<sup>39</sup> For example, Nasdaq position limits are determined by the position limits established by the Exchange. See Nasdaq Rule Sec. 7 (Position Limits).

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-MIAX-2018-10, and should be submitted on or before April 18, 2018.<sup>45</sup>

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

**Eduardo A. Aleman,**  
Assistant Secretary.

[FR Doc. 2018-06139 Filed 3-27-18; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82934; File No. SR-CBOE-2018-023]

### Self-Regulatory Organizations; Cboe Exchange Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Frequent Trader Program

March 22, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on March 19, 2018, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to provide an additional mechanism for executing brokers to submit Frequent Trader IDs post-trade.

The text of the proposed rule change is available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange proposes to amend its Fees Schedule. Specifically, the Exchange proposes to provide an additional mechanism for executing brokers to submit Frequent Trader IDs (“FTIDs”) post-trade. By way of background, to participate in the Frequent Trader Program, Customers (includes Professional Customers and Voluntary Professionals) may register with the Exchange. Once registered, the Customer is provided a unique identification number (“FTID”) that can be affixed to each of its orders. The FTID allows the Exchange to identify and aggregate all electronic and manual trades during both the Regular Trading Hours and Extended Trading Hours sessions from that Customer for purposes of determining whether the Customer meets any of the various volume thresholds. The Customer has to provide its FTID to the Trading Permit Holder (“TPH”) submitting that Customer’s order to the Exchange (“executing agent” or “executing TPH”) and that executing TPH would have to enter the Customer’s FTID on each of that Customer’s orders. The Exchange notes that there are instances however, in which a Customer’s FTID was not, or could not be, affixed to an order. As such, the Exchange provides executing TPHs the ability to submit to the exchange a form (the “Frequent Trader Program—Volume Corrections Form” or “Form”) as a mechanism for executing TPHs to identify transactions to the Exchange that should have been, but were not, associated with particular FTIDs. The Form needs to be submitted to the Exchange within 3 business days. Transactions identified on the Form only count towards the identified Customer’s volume if that Customer was already registered for the Frequent

Trader Program prior to the time the transaction occurred (e.g., if a customer trades 1,000 contracts the morning of April 1 and registers for the Frequent Trader Program the afternoon of April 1, that customer cannot have its executing TPH submit a form on its behalf for those 1,000 contracts executed prior to registration in the Program).

Effective March 19, 2018, a new FTID field will be available on Cboe Trade Match (“CTM”) terminals. This enhancement will allow executing TPHs to add or modify FTID information on post-trade records on the trade date. TPHs that require FTID modifications on trade records which occurred on past business days, limited to within the last 3 business days, must continue to submit these changes using the Form described above. The Exchange notes that the FTID field may be changed by the TPH via the CTM terminal without notice to the Exchange. The Exchange believes the enhanced functionality will provide an additional means to input FTID information and provide a more efficient and streamlined way to add or modify FTID information post-trade on the trade date.

###### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>3</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>4</sup> requirements that the rules of an exchange 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes adding system functionality to enable executing TPHs to input FTIDs post-trade on the trade date through CTM, instead of using a manual Form, provides TPHs with a more efficient mechanism to ensure a Customer’s FTID that was not, or could not be, affixed to an order, is attributed to that Customer’s order and gets timely reported, thereby removing impediments to and perfecting the

<sup>45</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78f(b)(5).