

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-NASDAQ-2012-112 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-NASDAQ-2012-112. 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2012-112 and should be submitted on or before November 2, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Kevin M. O'Neill,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67999; File No. SR-Phlx-2012-122]

**Self-Regulatory Organizations;
NASDAQ OMX PHLX LLC; Notice of
Filing and Immediate Effectiveness of
Proposed Rule Change to Eliminate
Position Limits for SPY Options on a
Pilot Basis**

October 5, 2012.

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 October 4, 2012, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") 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 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 eliminate position limits for options on the SPDR® S&P 500® exchange-traded fund ("SPY ETF"),³ which list and trade under the symbol SPY.

The text of the proposed rule change is available on the Exchange's Web site at <http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ "SPDR®," "Standard & Poor's®," "S&P®," "S&P 500®," and "Standard & Poor's 500" are registered trademarks of Standard & Poor's Financial Services LLC. The SPY ETF represents ownership in the SPDR S&P 500 Trust, a unit investment trust that generally corresponds to the price and yield performance of the SPDR S&P 500 Index.

*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 Rule 1001, titled "Position Limits" to eliminate position limits for SPY options.

Background

Position limits serve as a regulatory tool designed to address potential manipulative schemes and adverse market impact surrounding the use of options. The Exchange understands that the Commission, when considering the appropriate level at which to set option position and exercise limits, has considered the concern that the limits be sufficient to prevent investors from disrupting the market in the security underlying the option.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

SPY options are currently the most actively traded option class in terms of average daily volume ("ADV").⁶ The Exchange believes that, despite the popularity of SPY options as evidenced by their significant volume, the current position limits on SPY options could be a deterrent to the optimal use of this product as a hedging tool. The Exchange further believes that position limits on SPY options may inhibit the ability of certain large market participants, such as mutual funds and other institutional investors with substantial hedging needs, to utilize SPY options and gain meaningful exposure to the hedging function they provide.

The Exchange believes that current experience with the trading of SPY options, as well as the Exchange's surveillance capabilities, has made it appropriate to consider other, less

⁴ See Securities Exchange Act Release No. 40969 (January 22, 1999), 64 FR 4911, 4912-4913 (February 1, 1999) (SR-CBOE-98-23) (citing H.R. No. IFC-3, 96th Cong., 1st Sess. at 189-91 (Comm. Print 1978)).

⁵ *Id.* at 4913.

⁶ SPY ADV was 2,156,482 contracts in April 2012. ADV for the same period for the next four most actively traded options was: Apple Inc. (option symbol AAPL)—1,074,351; S&P 500 Index (option symbol SPX)—656,250; PowerShares QQQ TrustSM, Series 1 (option symbol QQQ)—573,790; and iShares® Russell 2000® Index Fund (option symbol IWM)—550,316.

¹³ 17 CFR 200.30-3(a)(12).

prophylactic alternatives to regulating SPY options, while still seeking to ensure that large positions in SPY options will not unduly disrupt the options or underlying cash markets. Accordingly, the Exchange proposes to eliminate the position limits on SPY options which are currently 900,000 contracts on the same side of the market.⁷ In proposing the elimination of position limits on SPY options, the Exchange has considered several factors, including (1) the availability of economically equivalent products and their respective position limits, (2) the liquidity of the option and the underlying security, (3) the market capitalization of the underlying security and the related index, (4) the reporting of large positions and requirements surrounding margin, and (5) the potential for market on close volatility.

Economically Equivalent Products

The Exchange has considered the existence of economically equivalent or similar products, and their respective position limits, if any, in assessing the appropriateness of proposing an elimination of position limits for SPY options.

For example, AM-settled options on the S&P 500 Index, which list and trade exclusively on the Chicago Board Options Exchange, Incorporated ("CBOE") under the symbol SPX, are currently not subject to position limits.⁸ Moreover, SPX options are 10 times the size of SPY options, so that a position of only 90,000 SPX options is the equivalent of a position of 900,000 SPY options, which is the current position limit for SPY options.⁹

Similarly, the C2 Options Exchange ("C2") has recently introduced a PM-settled S&P 500 cash settled contract ("SPXPM"), which also is not subject to position limits.¹⁰ This contract, unlike the existing SPX contract, is cash-settled based on the closing value of the S&P 500 Index. In this respect, SPXPM is very much like SPY options in that it is

settled at the close, albeit into cash as opposed to shares of the underlying like SPY options.

The Exchange believes that, because SPX, SPXPM, and SPY options are ultimately derivative of the same benchmark—the S&P 500 Index—they should be treated equally from a position limit perspective. As a practical matter, investors utilize SPX, SPXPM, and SPY options and their respective underlying instruments and futures to gain exposure to the same benchmark index: the S&P 500. Further, because the creation and redemption process for the underlying SPY ETF allows large investors to transfer positions from a basket of stocks comprising the S&P 500 index to an equivalent number of ETF shares (and the reverse) with relative ease, there is no reason to disadvantage options overlying the one versus the other. The Exchange believes that this view is supported by the recent expansion of various exemptions from position limits, such as the Delta-Based Equity Hedge Exemption¹¹ for positions of a member, member organization or non-member affiliate that are delta neutral, which allows SPY option positions to be delta-hedged by positions in SPX options. Given that SPX options are not subject to position limits, a member or member organization (or non-member affiliate thereof) could theoretically establish a position in SPY options far in excess of the current 900,000 contract limit, provided that the position is hedged with SPX options. The Exchange believes that this situation accurately reflects the economic equivalence of SPX and SPY options, supporting the Exchange's proposal to further acknowledge this equivalence by eliminating position limits in SPY options.

The Exchange also believes that Commission findings in approving the SPXPM options further support treating SPY options in the same manner as SPX and SPXPM options for purposes of position limits. In particular, the Commission noted in approving SPXPM options that "C2's proposal will offer investors another investment option through which they could obtain and hedge exposure to the S&P 500 stocks," and that "C2's proposal will provide investors with the ability to trade an option on the S&P 500 index in an all-electronic market, which may better meet the needs of investors who may prefer to trade electronically."¹² The Commission also noted that "C2's proposal will provide investors with

added flexibility through an additional product that may be better tailored to meet their particular investment, hedging, and trading needs."¹³ The Exchange believes that these Commission findings apply equally to SPY options. In this respect, SPY options with no position limit will (1) offer investors another investment option through which they could obtain and hedge significant levels of exposure to the S&P 500 stocks, (2) be available to trade on the Exchange (and presumably all other U.S. options exchanges) electronically, and (3) provide investors with added flexibility through an additional product that may be better tailored to meet their particular investment, hedging, and trading needs, because, among other things, they are PM-settled.

The Exchange notes that, with respect to competition amongst economically equivalent products, a 2005 paper by Hans Dutt and Lawrence Harris that set forth a model to determine appropriate position limits for cash-settled index derivatives observed that "markets and their regulators should take a closer look at the underlying economic rationale for the levels at which they currently set their position limits to ensure that the limits adequately protect markets from manipulation and that inconsistent position limits do not produce competitive advantages and disadvantages among contracts."¹⁴ On this point, the Exchange believes that if no position limits have been found to be warranted on both SPX and SPXPM options, then such treatment should be extended to SPY options so that inconsistent position limits do not produce competitive advantages and disadvantages among contracts.

In addition, the Exchange notes that the Dutt-Harris Paper focuses its attention on the concerns relating to manipulation of cash-settled derivatives, stating that "[a]lthough several scholars have argued that cash settlement may increase the risk of market manipulation, until recently, the theoretical problems arising from potential cash settlement manipulation has been considered minor, as evidenced by the lack of academic interest in this area."¹⁵ The paper further noted that "[t]he reason for this

¹³ *Id.*

¹⁴ *The Journal of Futures Markets*, Vol. 25, no. 10, 945–965, 949 (2005) ("Position Limits for Cash-Settled Derivative Contracts," by Hans R. Dutt and Lawrence E. Harris) ("Dutt-Harris Paper"). In the paper, the authors examined existing position limits to determine whether they were consistent with the model the authors developed, and found that the results indicated that existing limits were not correlated with the limits suggested by their model.

¹⁵ *Id.* at 946.

⁷ See Rule 1001. See also Securities Exchange Act Release No. 64695 (June 17, 2011), 76 FR 36942 (June 23, 2011) (SR-Phlx-2011-58).

⁸ See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (SR-CBOE-2001-22). Position limits were also eliminated for options on the S&P 100 Index (option symbol OEX) and the Dow Jones Industrial Average (option symbol DJX).

⁹ The Exchange notes that the reduced-value option on the S&P 500 Index (option symbol XSP) is the equivalent size of SPY options and, similar to SPX options, is not subject to position limits. See Securities Exchange Act Release No. 56350 (September 4, 2007), 72 FR 51878 (September 11, 2007) (SR-CBOE-2007-79).

¹⁰ See Securities Exchange Act Release No. 65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008) ("SPXPM Approval").

¹¹ See Commentary .09 to Exchange Rule 1001.

¹² See SPXPM Approval at 55975.

may arise from the fact that most exchange-traded derivative index contracts that are cash settled are broad-based, and each of the underlying components typically possesses ample liquidity,” and that “manipulation of the underlying components would likely be extremely costly to the would-be manipulator.”¹⁶ This suggests that whatever manipulation risk does exist in a cash-settled, broad-based product such as SPXPM, the corresponding manipulation risk in a physically-settled, but equally broad-based product such as SPY, is likely to be equally low, if not lower.

Similarly, the Exchange notes that in the Dutt-Harris Paper the authors observed that the lack of scholarly interest in the cash-settlement manipulation problem may have been “due to the fact that, until recently, most U.S. exchange-traded cash-settled derivative contracts were based on broad indices of very liquid stocks,” and that “[m]anipulation of such instruments require very large trades

that are costly to make and easy to detect through conventional surveillance.”¹⁷ This observation applies equally to SPY options, which are based on a broad index of very liquid stocks and can easily be created by submitting a position in the underlying securities. Moreover, it provides additional support for the Exchange’s view that the enhanced reporting and surveillance for SPY options discussed below adequately address concerns about manipulation.¹⁸

Liquidity in the Option and the Underlying Security

The Exchange has also considered the liquidity of SPY options and the underlying SPY ETF in assessing the appropriateness of proposing an elimination of position limits for SPY options.

In approving the elimination of position and exercise limits on SPX options, the Commission noted that the deep, liquid markets for the securities underlying the S&P 500 Index reduced

concerns regarding market manipulation or disruption in the underlying markets.¹⁹ The Commission further noted that removing position limits for SPX options could also bring additional depth and liquidity, in terms of both volume and open interest, without increasing concerns regarding intermarket manipulations or disruptions of the options or the underlying securities.²⁰ The Exchange similarly believes that this would be the case if position limits for SPY [sic].

In this regard, both the SPY ETF and SPY options similarly exhibit deep, liquid markets. However, SPY options are not as active as SPX options when adjusted for the difference in their notional size.²¹ As described below, the Exchange believes that this is partly due to the existence of position limits for SPY options. The table below compares the ADV in both SPX and SPY options, and includes an “implied SPY volume” figure that reflects theoretical SPY ADV without the constraint of position limits:

Date range	Trade days	SPX options ADV	SPY options ADV	Implied SPY option ADV	Implied SPY option ADV shortfall
Jan 1, 2011 to Dec 31, 2011	252	1,567,535	5,789,511	15,675,353	9,885,842
Jan 1, 2012 to Apr 19, 2012	75	1,343,735	4,525,709	13,437,353	8,911,644

The Exchange believes that certain factors may result in SPX options—adjusted for their larger notional size—currently trading with greater volume than SPY options.²² In this regard, the Exchange believes that, based on input from various market participants, the existence of position limits in SPY options is reason in itself to instead utilize SPX options. Anecdotally, market participants perceive value in avoiding the regulatory risk of

exceeding the SPY option position limit by instead using SPX options for their hedging needs. The Exchange also believes that, while exemptions are available with respect to position limits for SPY options, such exemptions, and the regulatory burden attendant therewith, may dissuade investors from using SPY options when they can instead use an SPX option without the need for such an exemption. Because SPY and SPX options are economically

equivalent products, an investor deciding between the two would generally trade the product with the least barriers or requirements to engage in such activity. In this respect, SPX options are currently the easier product to trade.

As a further comparison, the following table sets forth certain data for both the SPY ETF and the combined volume for the component securities upon which the S&P 500 Index is based:

Date range	S&P 500 index underlying component ADV ²³	S&P 500 index underlying component average daily value traded	SPY ETF ADV	SPY ETF average daily value traded
Jan 1, 2011 to Dec 31, 2011	3,289,595,675	\$4,149,726,217,456	218,227,747	\$27,297,097,993
Jan 1, 2012 to Apr 19, 2012	2,851,457,600	3,860,704,307,080	145,164,527	19,684,577,239

This data shows that there is tremendous liquidity in both SPY ETF shares and the component securities upon which the S&P 500 Index is based.

While the ADV for the components underlying the S&P 500 Index is greater than the ADV for the SPY ETF, the Exchange believes that SPY ETF volume

has been, is currently and will likely continue to be within a range that the Commission has previously determined to be a deep, liquid market.²⁴

¹⁶ *Id.*

¹⁷ *Id.* at 948.

¹⁸ The authors of the Dutt-Harris Paper further posited that “position limits need only apply during the period when cash settlement takes place.” *Id.* at 964. The Exchange notes that no such period exists with respect to SPY options, which are physically settled.

¹⁹ See *supra* note 2 at 4913.

²⁰ *Id.*

²¹ SPX options have a notional value 10 times greater than SPY options (i.e., one SPX contract equals 10 SPY contracts).

²² The Exchange notes that the “Implied SPY Option ADV Shortfall” has narrowed over time and at an accelerated rate, which the Exchange believes is a direct result of the implementation of the Delta-

Based Equity Hedge Exemption that allows SPY options to be hedged via SPX options.

²³ The data considers the aggregate volume for all component stocks of the S&P 500 Index.

²⁴ See *supra* note 4 at n. 13. The ADV for the components of the indexes underlying the options for which position limits were eliminated were 94.77 million shares (DJX), 244.3 million shares (OEX), and 757.5 million shares (SPX).

Market Capitalization of the Underlying Security and the Related Index

The Exchange has also considered the market capitalization of the SPY ETF and the S&P 500 Index in assessing the appropriateness of proposing an

elimination of position limits for SPY options.

The Exchange understands that the Commission similarly considered the market capitalization of the underlying index when it approved the elimination of position limits in SPX options. Accordingly, the Exchange believes that

the capitalization of and the deep, liquid markets for the underlying SPY ETF reduces concerns regarding market manipulation or disruption in the underlying market. The table below shows the market capitalization of the SPY ETF and the S&P 500 Index:

Date range average S&P 500 index	Date range average S&P 500 index	Date range average S&P 500 index
Jan. 1, 2011 to Dec. 31	\$11,818,270,341,270	\$89,533,777,897
Jan. 1, 2012 to Apr.	12,547,946,920,000	99,752,986,022

This data shows the enormous capitalization of both the SPY ETF and the component securities upon which the S&P 500 Index is based. While the capitalization for the components underlying the S&P 500 Index is greater than that for the SPY ETF, the Exchange believes that the SPY ETF capitalization has nonetheless been, is currently and will likely continue to be at a level consistent with that which the Commission has previously determined to be enormously capitalized.²⁵

The Exchange notes that the theoretical limit on one's ability to hedge both SPX and SPY options is the full market capitalization of the S&P 500 Index itself. This similarly contributes to the Exchange's determination that it is appropriate for position limits on SPY options to be eliminated.

Large Position Reporting and Margin Requirements

The Exchange has also considered the reporting of large option positions and related margin requirements in assessing the appropriateness of proposing an elimination of position limits for SPY options.

The Exchange notes that the Rule 1003 titled "Reporting of Options Positions" would continue to apply. Rule 1003 requires members and member organizations to file a report with the Exchange with respect to each account in which the member or member organization has an interest; each account of a partner, officer, director, trustee or employee of such member organization; and each customer account that has established an aggregate position (whether long or short) that meets certain determined thresholds (e.g., 200 or more option contracts if the underlying security is a stock or Exchange-Traded Fund Share). Rule 1003 also permits the Exchange to impose a higher margin requirement

upon the account of a member or member organization when it determines that the account maintains an underhedged position.

Specifically, Rule 1003(b) requires that, "In addition to the reporting requirements described in paragraph (a) of the Rule, each member (other than an Exchange market-maker) that maintains a position in excess of 10,000 non-FLEX equity option contracts on the same side of the market on behalf of its own account or for the account of a customer, shall report information as to whether such position is hedged, and provide documentation as to how such position is hedged in a manner and form prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with an under-hedged non-FLEX equity option position in excess of 10,000 contracts on the same side of the market, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 722(d). Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under Securities Exchange Act Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements."

Monitoring accounts maintaining large positions provides the Exchange with the information necessary to determine whether to impose additional margin and/or whether to assess capital charges upon a member organization carrying the account. In addition, the Commission's net capital rule, Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Act"),²⁶ imposes a capital charge on members to the extent of any margin deficiency resulting from the higher margin requirement, which should serve as an additional form of protection.

In approving SPXPM, the Commission addressed concerns about the lack of a position limit by noting that CBOE will rely on its enhanced surveillance requirements and procedures for SPX options to monitor trading activity in SPXPM options.²⁷ Similarly, the Exchange notes that certain option products are currently traded on the Exchange without position limits (e.g., the NASDAQ® 100 Index option (option symbol NDX) and the Russell 2000® Index option (option symbol RUT)), and believes that the reporting, surveillance and monitoring mechanisms in place for these products are effective and could easily accommodate SPY options if position limits thereon are eliminated.

Market on Close Volatility

The Exchange has also considered the potential for resulting or increased market on close volatility in assessing the appropriateness of proposing an elimination of position limits for SPY options.

SPY options are American-style, physically settled options that can be exercised at any time and settle into shares of the underlying SPY ETF. A key characteristic of the SPY ETF is that the number of shares outstanding is limited only by the number of shares available in the component securities of the S&P 500 Index, which can be used to create additional SPY ETF shares as needed. This in-kind creation and redemption mechanism has proven to be quite robust, as evidenced by the SPY ETF's close tracking of its benchmark index and the relatively small premiums or discounts to Net Asset Value ("NAV") that it has historically exhibited.²⁸ Additionally, the ability to hedge with SPX options against the stocks underlying the S&P 500 is limited to the shares outstanding for those stocks—the same limit that applies to

²⁵ See *supra* note 9 at 51879. Specifically, the market capitalization of the component securities of the Russell 2000 Index ("RUT") of \$1.73 trillion was determined to be enormously capitalized.

²⁶ 17 CFR 240.15c3-1.

²⁷ See SPXPM Approval at 55972.

²⁸ See SPDR® S&P 500® ETF Trust, Annual Report (September 30, 2011), available at <https://www.spdrs.com/library/content/public/SPY%20Annual%20Report%2009.30.11.pdf>.

hedging with SPY options. Accordingly, the Exchange believes that the risk of distortions to the market resulting from the elimination of position limits in SPY options is no greater than the risk presented by SPX options not being subject to position limits.

As a physically-settled option, SPY options can be easily hedged via long or short positions in SPY ETF shares, which, as noted above, can be easily created or redeemed as needed. With a physically-settled contract such as SPY options, once a hedge in the form of a long or short position is obtained, that hedge can only be lost if the underlying security becomes hard to borrow and the short position is bought in.²⁹ The Exchange believes that this ability to hedge with shares of the SPY ETF is very important, and reduces the likelihood of market on close volatility in the component securities underlying the S&P 500 Index (i.e., a market participant can remain fully hedged through expiration via shares of the SPY ETF), which should also be the case if position limits for SPY options are eliminated. At the same time, the Exchange believes that the elimination of position limits for SPY options would not increase market volatility or facilitate the ability to manipulate the market. The Exchange believes that any potential concern regarding volatility at the closing that could result from an elimination in the position limits for SPY options is further alleviated by the current trading environment, including that there are markets for individual securities on more than one exchange, via unlisted trading privileges, that there is wide dispersion of trading across multiple exchanges, and that exchange procedures and systems are designed to facilitate orderly closings, even when there is volatility.³⁰

Implementation

In addition to Commission approval, the implementation of this proposed rule change will be contingent on other factors, including the completion of any changes that may be necessary to the Exchange's regulatory and surveillance program. The Exchange will announce the implementation of the elimination of position limits on SPY options

through a notice to ATP holders after any Commission approval of this proposed rule change.

Pilot Program

The Exchange proposes that this rule change be adopted pursuant to a pilot program, set to expire December 5, 2013. The Exchange will perform an analysis of the initial pilot program to eliminate position limits in SPY after the first twelve (12) months of the pilot program (the "Pilot Program"). The Pilot Report will be submitted within thirty (30) days of the end of such twelve (12) month time period. The Pilot Report will detail the size and different types of strategic [sic] employed with respect to positions established as a result of the elimination of position limits in SPY. In addition, the report will note whether any problems resulted due to the no limit approach and any other information that may be useful in evaluating the effectiveness of the pilot program. The Pilot Report will compare the impact of the pilot program, if any, on the volumes of SPY options and the volatility in the price of the underlying SPY shares, particularly at expiration. In preparing the report the Exchange will utilize various data elements such as volume and open interest. In addition the Exchange will make available to Commission staff data elements relating to the effectiveness of the pilot program.

Conditional on the findings in the Pilot Report, the Exchange will file with the Commission a proposal to either extend the pilot program, adopt the pilot program on a permanent basis or terminate the Pilot Program. If the Pilot Program is not extended or adopted on a permanent basis by December 5, 2013, the position limits for SPY would revert to limits in effect at the commencement of the pilot program.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act³¹ in general, and furthers the objectives of Section 6(b)(5) of the Act³² in particular, in that 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 Exchange believes that the proposed rule change would be

beneficial to market participants, including market makers, institutional investors and retail investors, by permitting them to establish greater positions when pursuing their investment goals and needs. The Exchange also believes that economically equivalent products should be treated in an equivalent manner so as to avoid regulatory arbitrage, especially with respect to position limits. Treating SPY and SPX options differently by virtue of imposing different position limits is inconsistent with the notion of promoting just and equitable principles of trade and removing impediments to perfect the mechanisms of a free and open market. At the same time, the Exchange believes that the elimination of position limits for SPY options would not increase market volatility or facilitate the ability to manipulate the market.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition 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

No written comments were either solicited or 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act³³ and Rule 19b-4(f)(6) thereunder.³⁴

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act³⁵ normally does not become operative for 30 days after the date of its

²⁹ As noted, the in-kind creation and redemption process allows for short term imbalances in supply and demand to be resolved readily, which in turn reduces the likelihood of getting "bought in" on a short position in SPY. Since the implementation of Regulation SHO, SPY has never been on the threshold security list, which further evidences the efficacy of the in-kind creation and redemption process in resolving imbalances in supply and demand.

³⁰ See, e.g., Rule 133 titled "Trading Halts Due to Extraordinary Market Volatility."

³¹ 15 U.S.C. 78f(b).

³² 15 U.S.C. 78f(b)(5).

³³ 15 U.S.C. 78s(b)(3)(A).

³⁴ 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 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. The Exchange has satisfied this requirement.

³⁵ 17 CFR 240.19b-4(f)(6).

filing. However, Rule 19b-4(f)(6)³⁶ 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, noting that doing so will ensure fair competition among options exchanges and immediately benefit market participants who are Exchange members and members of other exchanges, such as NYSE Amex and CBOE, by ensuring consistency and uniformity across options exchanges with respect to the multiply listed SPY options class. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.³⁷ Therefore, the Commission hereby waives the 30-day operative delay and designates the proposal operative as of October 5, 2012.

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.

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-Phlx-2012-122 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-Phlx-2012-122. 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 Web site (<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 Web site 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2012-122 and should be submitted on or before November 2, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁸

Kevin M. O'Neill,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-68000; File No. SR-ISE-2012-81]

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Pilot Program To Eliminate Position and Exercise Limits in SPY Options

October 5, 2012.

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 September 27, 2012, the International Securities Exchange, LLC (the "Exchange" or the "ISE") filed with the Securities and Exchange Commission ("Commission") the 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 Substance of the Proposed Rule Change

The Exchange proposes to amend its rules to eliminate position and exercise limits for physically-settled options on the SPDR S&P ETF Trust ("SPY") pursuant to a pilot program. The text of the proposed rule change is available on the Exchange's Web site www.ise.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the 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 self-regulatory organization 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

ISE proposes to amend Supplementary Material .01 to ISE Rule 412 and Supplementary Material .01 of ISE Rule 414 to eliminate position and exercise limits, respectively, for physically-settled SPY options pursuant to a pilot program. This filing is based on a filing previously submitted by NYSE MKT LLC (f/k/a NYSE Amex, LLC ("NYSE Amex")), which the Commission recently approved.³

The Exchange began trading SPY options on January 10, 2005. That year, the position limit for these options was increased from 75,000 contracts to 300,000 contracts on the same side of the market.⁴ In July 2011, the position limit for these options was again increased from 300,000 contracts to the

³⁶ 17 CFR 240.19b-4(f)(6).

³⁷ 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).

³⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 67672 (August 15, 2012), 77 FR 50750 (August 22, 2012) (SR-NYSEAmex-2012-29).

⁴ See Securities Exchange Act Release No. 51042 (January 14, 2005), 70 FR 3412 (January 24, 2005) (SR-ISE-2005-05).