This Notice will be published in the Federal Register.

Stacy L. Ruble,
Secretary.

[FR Doc. 2018–08629 Filed 4–24–18; 8:45 am]
BILLING CODE 7710–FW–P

POSTAL SERVICE

Product Change—Priority Mail Negotiated Service Agreement

AGENCY: Postal Service™.

ACTION: Notice.

SUMMARY: The Postal Service gives notice of filing a request with the Postal Regulatory Commission to add a domestic shipping services contract to the list of Negotiated Service Agreements in the Mail Classification Schedule’s Competitive Products List.

DATES: Date of required notice: April 25, 2018.

FOR FURTHER INFORMATION CONTACT: Elizabeth Reed, 202-268-3179.


Elizabeth Reed,
Attorney, Corporate and Postal Business Law.

[FR Doc. 2018–08581 Filed 4–24–18; 8:45 am]
BILLING CODE 7710–12–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; NYSE American LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Modify Rule 904, Commentary .07 To Expand Position Limits for Options on Certain Exchange-Traded Funds

April 19, 2018.

Pursuant to Section 19(b)(1)1 of the Securities Exchange Act of 1934 (the “Act”)2 and Rule 19b-4 thereunder,3 notice is hereby given that on April 6, 2018, NYSE American LLC (the “Exchange” or “NYSE American”) 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 self-regulatory organization. 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 proposes to modify Rule 904 (Position Limits), Commentary .07 to expand position limits for options on certain Exchange-Traded Funds (ETFs). The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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 self-regulatory organization 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 those 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 parts 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 Rule 904, Commentary .07 to expand position limits for options on certain ETFs. Specifically, the Exchange proposes to expand the position limits for options on the following ETFs: iShares China Large-Cap ETF (“FXI”), iShares MSCI EAFE ETF (“EFA”), iShares MSCI Emerging Markets ETF (“EEM”), iShares Russell 2000 ETF (“IWM”), iShares MSCI Brazil Capped ETF (“EWZ”), and iShares 20+ Year Treasury Bond Fund ETF (“TLT”). PowerShares QQQ Trust (“QQQQ”), and iShares MSCI Japan ETF (“EWJ”). This is a competitive filing that is based on a proposal recently submitted by the Chicago Board Options Exchange Incorporated (“Cboe”) and approved by the Securities and Exchange Commission (“Commission”).4

Position Limit Increase

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 Rule 904, and vary according to the number of outstanding shares and the trading volume of the underlying stocks or ETFs over the past six months. Pursuant to Rule 904, 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 Rule 904.5 Rule 904, Commentary .07 sets forth separate position limits for options on specific ETFs as follows:

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

The purpose of this proposal is to amend Rule 904, Commentary .07 to double the position and exercise limits for FXI, EEM, IWM, EFA, EWZ, TLT, QQQQ, and EWJ.6 The Exchange notes

7 By virtue of Rule 905 (Exercise Limits), which is not being amended by this filing, the exercise limit for FXI, EEM, IWM, EFA, EWZ, TLT, QQQQ, and EWJ options would be similarly increased. The Exchange notes that it also proposes to make non-substantive changes corrections to the names of IWM and EEM and to assign letters (a)–(f) to the paragraphs in current Commentary .07 to the Rule to make it easier to follow (and reference). See proposed Commentary .07[a]–[f] to Rule 904. The Exchange does not propose to alter the substances of new paragraphs (a)–(e) of the Commentary. Proposed changes to paragraph (f) are discussed Continued
that it also proposes to make non-substantive changes corrections to the names of IWM and EEM (replacing “Index Fund with ETF”) and to assign letters (a)–(f) to the paragraphs in current Commentary .07 to the Rule to make it easier to follow (and reference).7

As such, options on FXI, EFA, EWZ, TLT, and EWJ would no longer be subject to the standard position limits set forth under Rule 904. Accordingly, Commentary .07(f) would be amended to set forth that the position limits for options on FXI, EFA, EWZ, TLT, and EWJ would be 500,000 contracts. These position limits equal the current position limits for option on IWM and EMM and are similar to the current position limit for options on QQQQ set forth in Rule 904, Commentary .07. Further, Rule 904 would also be amended to increase the position limits for the remaining options subject to this proposal as follows:

- The position limits for options on EEM would be increased from 500,000 contracts to 1,000,000 contracts;
- The position limits on options on IWM would be increased from 500,000 contracts to 1,000,000 contracts;
- The position limits on options on QQQQ would be increased from 900,000 contracts to 1,800,000 contracts.8

In support of this proposal, the Exchange represents that the above listed ETFs qualify for either: (i) The initial listing criteria set forth in Rule 915, Commentary .06(b) 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.9 FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks.10 EEM tracks the performance of the MSCI Emerging Markets Index, which is composed of approximately 800 component securities.11 “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.”12 IWM tracks the performance of the Russell 2000 Index, which is composed of 2,000 small-cap domestic stocks.13 EFA tracks the performance of MSCI EAFE Index, which has over 900 component securities.14 “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.”15 EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil.16 TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds.17 QQQQ 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”).18 EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan.19

The Exchange 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.20

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.21

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% or more of the weight of the MSCI Emerging Markets Index.22

In seeking to expand position limits for the same ETFs at issue in this proposal, Cboe represented that market participants have increased their demand for options on FXI, EFA, EWZ, TLT, and EWJ for hedging and trading purposes and, in support of this claim, presented the trading statistics set forth in the table below.23

<table>
<thead>
<tr>
<th>ETF</th>
<th>2017 ADV (Mil. shares)</th>
<th>2017 ADV (option contracts)</th>
<th>Shares outstanding (Mil.)</th>
<th>Fund market cap ($Mill.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FXI</td>
<td>15.08</td>
<td>71,944</td>
<td>78.6</td>
<td>$3,343.6</td>
</tr>
<tr>
<td>EEM</td>
<td>52.12</td>
<td>287,357</td>
<td>797.4</td>
<td>34,926.1</td>
</tr>
<tr>
<td>IWM</td>
<td>27.46</td>
<td>490,070</td>
<td>253.1</td>
<td>35,809.1</td>
</tr>
<tr>
<td>EFA</td>
<td>19.42</td>
<td>98,844</td>
<td>1178.4</td>
<td>78,870.3</td>
</tr>
<tr>
<td>EWZ</td>
<td>17.08</td>
<td>95,152</td>
<td>159.4</td>
<td>6,023.4</td>
</tr>
<tr>
<td>TLT</td>
<td>8.53</td>
<td>80,476</td>
<td>60.0</td>
<td>7,442.4</td>
</tr>
<tr>
<td>QQQQ</td>
<td>26.25</td>
<td>579,404</td>
<td>351.6</td>
<td>50,359.7</td>
</tr>
<tr>
<td>EWJ</td>
<td>6.06</td>
<td>4,715</td>
<td>303.6</td>
<td>16,625.1</td>
</tr>
<tr>
<td>SPY</td>
<td>64.63</td>
<td>2,575,153</td>
<td>976.23</td>
<td>240,540.0</td>
</tr>
</tbody>
</table>

7 See proposed Commentary .07(f) to Rule 904.
8 See proposed Commentary .07(f) to Rule 904. The Exchange does not propose to alter the substances of new paragraphs (a)–(f) of the Commentary. Proposed changes to paragraph (f) are discussed herein. See proposed Commentary .07(f) to Rule 904.
9 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 Rule 915, Commentary .06(b)(ii)(A); Rule 915, Commentary .06.
12 See http://www.msci.com/products/indices/tools/index.html#EM.
15 See https://www.ishares.com/eafe.
19 See https://www.ishares.com/us/products/239665/EWJ.
20 See Rule 915, Commentary .06.
21 See Rule 915, Commentary .06(b)(ii)(A).
22 See Rule 915, Commentary .06(b)(ii)(B).
23See Choe Approval Order, supra note 4.
24 SFPDR S&P 500 ETF (“SPY”) is included here for comparison purposes.
The Exchange agrees and believes the current position limits are too low and may be a deterrent to successful trading of options on these securities. The analysis that follows was likewise conducted by Cboe in support of its proposal. The Exchange agrees with Cboe’s analysis discussed below.

In support of its proposal to increase the position limits for QQQQ to 1,800,000 contracts, Cboe compared the trading characteristics of QQQQ to that of EEM, which has no position limits. As shown in Cboe’s above table, the average daily trading volume through August 14, 2017 for QQQQ was 26.25 million shares compared to 64.63 million shares for SPY. The total shares outstanding for QQQQ are 351.6 million compared to 976.23 million for SPY. The fund market cap for QQQQ is $50,359.7 million compared to $240,540 million for SPY. SPY is one of the most actively trading ETFs and is subject to no position limits. QQQQ is also very actively traded, and while not to the level of SPY, should be subject to the proposed higher position limits based its trading characteristics when compared to SPY. The proposed position limit coupled with QQQQ’s trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in the securities underlying the options.

In support of its proposal to increase the position limits for EEM and IWM from 500,000 contracts to 1,000,000 contracts, Cboe also compared the trading characteristics of EEM and IWM to that of QQQQ, which currently has a position limit of 900,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for EEM was 52.12 million shares and IWM was 27.46 million shares compared to 26.25 million shares for QQQQ. The total shares outstanding for EEM are 797.4 million and for IWM are 253.1 million compared to 351.6 million for QQQQ. The fund market cap for EEM is $34,926.1 million and IWM is $35,809.1 million compared to $50,359.7 million for QQQQ. EEM, IWM and QQQQ have similar trading characteristics and subjecting EEM and IWM to the proposed higher position limit would continue be designed to address potential manipulative schemes that may arise from trading in the options and their underlying securities. These above trading characteristics for QQQQ when compared to EEM and IWM also justify increasing the position limit for QQQQ. QQQQ has a higher option activity than EEM and IWM, a higher number of shares outstanding than IWM and a much higher market cap than EEM and IWM which justify doubling the position limit for QQQQ. Based on these statistics, and as stated above, the proposed position limit coupled with QQQQ’s trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in the securities underlying the options.

In support of its proposal to increase the position limits for FXI, EFA, EWZ, TLT, and EWJ from 250,000 contracts to 500,000 contracts, Cboe compared the trading characteristics of FXI, EFA, EWZ, TLT, and EWJ to that of EEM and IWM, both of which currently have a position limit of 500,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for FXI is 15.08 million shares, EFA is 19.42 million shares, EWZ is 17.08 million shares, TLT is 8.53 million shares, and EWJ is 6.06 million shares compared to 52.12 million shares for EEM and 27.46 million shares for IWM. The total shares outstanding for FXI is 253.1 million, EFA is 1178.4 million, EWZ is 159.4 million, TLT is 60 million and EWJ is 303.6 million compared to 797.4 million for EEM and 253.1 million for IWM. The fund market cap for FXI is $3,343.6 million, EFA is $78,870.3 million, EWZ is $6,023.4 million, TLT is $7,442.4 million, and EWJ is $16,625.1 million compared to $34,926.1 million for EEM and $35,809.1 million for IWM. The trading characteristics of FXI, EFA, EWZ, TLT, and EWJ are either similar to that of EEM and IWM or sufficiently active so that the proposed position limit would continue to address potential manipulation that may arise. EFA has far more shares outstanding and a larger fund market cap than EEM, IWM, and QQQQ. EWJ has a more shares outstanding than IWM and only slightly less shares outstanding than QQQQ.

On the other hand, while FXI, EWZ, and TLT do not exceed EEM, IWM or QQQQ in any of the specified areas, they are all actively trading so that market participant’s trading activity has been impacted by them being restricted by the current position limits. The Exchange believes that the trading activity and these securities being based on a broad basket of underlying securities alleviates any potential manipulative activity that may arise. In addition, as discussed in more detail below, the Exchange’s existing surveillance procedures and reporting requirements at the Exchange, other options exchanges, and at several clearing firms are capable of properly identifying unusual and/or illegal trading activity.

According to Cboe, market participants’ trading activity has been adversely impacted by the current position limits for FXI, EFA, EWZ, TLT, and EWJ and such limits have caused options trading in these symbols to move from exchanges to the over-the-counter market. The Exchange understands that certain market participants wishing to make trades involving a large number of options contracts in the symbols subject to the 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.

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. The Exchange notes that the Commission has generally looked through to the liquidity of securities comprising an index in establishing position limits for cash-settled index options. The Exchange further notes that options on certain broad-based security indexes have no position limits. Likewise, the Commission has recognized the liquidity of the securities comprising the underlying interest of SPY in permitting no position limits on SPY options since 2012, and expanded position limits for options on EEM, IWM, and QQQQ.

The proposed position limits set forth in the 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 to trade those shares to the ETF provider. In exchange, the ETF provider gives the Authorized Participant a block of

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26 See supra nn. 9–16 (providing trading statistics for each ETF at issue in this proposal).
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. 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 ETF shares on the open market. This should help drive the ETF’s share price back toward fair value. Likewise, 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.

Some of the ETFs underlying options subject to the 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 the proposal and have no position limits. Other ETFs are based on broad-based indices 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. 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 asset is large enough to absorb any price movements that may be caused by an oversize 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 are part of the creation/redemption process to address supply and demand or to mitigate the price movement of the ETF.

QQQQ
For example, the PowerShares QQQ Trust or QQQQ 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 the standard position limit of 25,000 contracts for broad-based index options but share similar trading characteristics as QQQQ. Based on QQQQ’s share price of $114.77 and NDX’s index level of 6,339.14, approximately 40 contracts of QQQQ equals one contract of NDX. Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000 contracts for QQQQ as NDX’s analogue. NDX is subject to the standard position limit of 25,000 contracts for broad-based index options and has an average daily trading volume of 15,300 contracts. QQQQ is currently subject to a position limit of 900,000 contracts but has a much higher average daily trading volume of 579,494 contracts. Furthermore, NDX 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 NDX. Therefore, the Exchange believes it is reasonable to increase the position limit for options on the IWM from $154.54 and NDX’s index level of 6,339.14, approximately 40 contracts of QQQQ equals one contract of NDX. Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000 contracts for QQQQ as NDX’s analogue. NDX is subject to the standard position limit of 25,000 contracts for broad-based index options and has an average daily trading volume of 15,300 contracts. QQQQ is currently subject to a position limit of 900,000 contracts but has a much higher average daily trading volume of 579,494 contracts. Furthermore, NDX currently has a market capitalization of $17.2 trillion and IWM 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 QQQQ. The Exchange notes that other exchanges allow no position limits 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
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 comparison 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. MXEF is currently subject to the standard position limit of 25,000 contracts for Broad Stock Index Group options under Rule 904C(b). 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

See Rule 904C(b) (Position Limits) (describing position limits for Broad Stock Index Group).

See Rule 904C(b) (Position Limits) (describing position limits for Broad Stock Index Group).

See id.

See Choe Rule 24.4.
analogue for FXI approved for options
composed of the 50 largest Chinese
price movement cause by a large trade
FXI. The components of the FTSE
250,000 contracts but has a
much higher average daily trading
shares. Based on the above
comparison, the Exchange believes it
is reasonable to increase the
position limit for options on the FXI
from 250,000 to 500,000 contracts.

EWZ

EWZ tracks the performance of the
MSCI Brazil 25/50 Index, which is
composed of shares of large and
mid-cap 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 cause 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 comparison, the Exchange believes it is reasonable to increase the
position limit for options on the EWZ from 250,000 to 500,000 contracts.

TLT

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 cause by a large trade in TLT.
Therefore, the potential for
manipulation will not increase solely
due the increase in position limits as set
forth in this proposal. Based on the above comparison, the Exchange believes it is reasonable to increase the
position limit for options on the TLT
from 250,000 to 500,000 contracts.

FXI

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 cause 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 100,000 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.
this level for the options subject to this proposal.\footnote{36}

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 daily monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and underlying stocks.\footnote{37}

Furthermore, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.\footnote{38} 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 ATP Holders 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 an ATP Holder 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 an ATP Holder must maintain for a large position held by itself or by its customer.\footnote{39} In addition, Rule 15c3–1\footnote{40} imposes a capital charge on ATP Holders to the extent of any margin deficiency resulting from the higher margin requirement.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)(5) of the Act\footnote{41} in general, and furthers the objectives of Section 6(b)(5) of the Act,\footnote{42} 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.\footnote{43} 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 ETFs subject to this proposal and the considerable liquidity of the market for options on those ETFs 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.

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.\footnote{44} The Exchange’s enhanced surveillance and reporting safeguards continue to be 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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. 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.

Further, the Exchange notes that the rule change is being proposed as a competitive response to a filing submitted by Cboe that was recently approved by the Commission.\footnote{45}

\footnote{36}See Rule 906 (Reporting of Options Positions).
\footnote{37}These procedures have been effective for the surveillance of trading the options subject to this proposal and will continue to be employed.
\footnote{38}17 CFR 240.13d–1.
\footnote{39}17 CFR 462 (Minimum Margins).
\footnote{40}17 CFR 240.15c3–1.


\footnote{46}See supra note 4.
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 50 and Rule 19b–4(f)(6) thereunder. 51

A proposed rule change filed pursuant to Rule 19b–4(f)(6) under the Act 52 normally does not become operative for 30 days after the date of its filing. However, Rule 19b–4(f)(6)(iii) 53 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 will ensure fair competition among the exchanges by allowing the Exchange to immediately increase the position limits for the products subject to this proposal, which the Exchange believes will provide consistency for ATP Holders that are also members at CBOE where these increased position limits are currently in place. 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 proposed rule change from interested persons.

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 change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments
- Use the Commission’s internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@sec.gov. Please include File Number SR–NYSEARCA–2018–14 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–NYSEARCA–2018–14. 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 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–NYSEARCA–2018–14, and should be submitted on or before May 16, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority. 55

Eduardo A. Aleman,
Assistant Secretary.

[FR Doc. 2018–08615 Filed 4–24–18; 8:45 am]

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Modify Rule 6.8–O, Commentary .06 To Expand Position Limits for Options on Certain Exchange-Traded Funds

April 19, 2018.

Pursuant to Section 19(b)(1) 1 of the Securities Exchange Act of 1934 (the “Act”) 2 and Rule 19b–4 thereunder, 3 notice is hereby given that on April 13, 2018, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) 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 self-regulatory organization. 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 proposes to modify Rule 6.8–O (Position Limits), Commentary .06 to expand position limits for options on certain Exchange-Traded Funds (ETFs). The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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