

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72993; File No. SR-NASDAQ-2014-091)

September 4, 2014

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to SPY and DIA Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on September 2, 2014, The NASDAQ Stock Market LLC (“NASDAQ” 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 NASDAQ. 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

NASDAQ is filing with the Commission a proposal to amend Chapter IV, Section 6 (Series of Options Contracts Open for Trading) of the rules of the NASDAQ Options Market (“NOM”) to allow \$1 or greater strike price intervals for options on the SPDR[®] S&P 500[®] Exchange Traded Fund (“SPY”) and the SPDR[®] Dow Jones[®] Industrial Average Exchange Traded Fund (“DIA”).³

The text of the proposed rule change is available from NASDAQ’s website at <http://nasdaq.cchwallstreet.com>, at NASDAQ’s principal office, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ S&P[®], S&P 500[®], Standard & Poor’s[®], and SPDR[®] are registered trademarks of Standard & Poor’s[®] Financial Services LLC. Dow Jones[®], DJIASM, and Dow Jones Industrial AverageSM are registered trade and service marks of Dow Jones[®] Trademark Holdings LLC.

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

In its filing with the Commission, NASDAQ 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. NASDAQ 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 this proposed rule change is to amend Chapter IV, Section 6 by modifying the interval setting regime for SPY and DIA options listed on the SPDR S&P 500 Exchange Traded Fund (“ETF”) and the SPDR Dow Jones Industrial Average ETF, respectively, to allow \$1 or greater strike price intervals.⁴ Through this filing, the Exchange intends to make SPY and DIA options more tailored and easier for investors and traders to use.

The proposed rule change is based on the recent Commission approval of a proposal to amend Commentary.05 to NASDAQ OMX PHLX LLC (“Phlx”) Rule 1012 to allow SPY and DIA options to trade in \$1 or greater increments.⁵

Under current Chapter IV, Supplementary Material .01 to Section 6, the interval of strike prices of series of options on ETFs is \$1 or greater where the strike price is 200 or less and \$5 or greater where the strike price is more than 200.⁶ The Proposal seeks to narrow those strike

⁴ The SPDR S&P 500 ETF is based on the broad-based S&P 500 Index, and the SPDR Dow Jones Industrial Average ETF is based on the Dow Jones Industrial Average.

⁵ See Securities Exchange Act Release No. 72949 (August 29, 2014) (SR-Phlx-2014-46) (approval order).

⁶ See Chapter IV, Supplementary Material .01(b) to Section 6.

intervals to \$1 apart for SPY and DIA options, in effect matching the interval for these products to ETF option strike prices at or below 200.

The prices for SPY and DIA options [sic] are approaching the 200 price point. By the end of June 2014, for example, SPY was trading at more than \$195 per share and DIA was trading at more than \$168 per share.⁷ As the option strike prices continue to appreciate, investor and member demands to list additional SPY and DIA option series continue to increase. SPY is the most heavily traded and liquid exchange-traded product in the U.S., and SPY options represent 13% of the total option volume in the U.S. and 8% of the options volume on the Exchange. DIA options represent 12% of the options volume on the Exchange and less than 1% of the options volume in the U.S. Moreover, the popularity of DIA and SPY options is reflected in the fact that they have options contracts reflecting monthly, quarterly, and weekly expiration cycles.⁸ Not having the proposed \$1 intervals above a 200 strike price will significantly limit investors' hedging and trading possibilities, particularly when it comes to executing strategies that are effective in \$1 intervals; and may, as a result, constrict trading and hedging activity. The Exchange therefore proposes to amend Chapter IV, Supplementary Material .01 to Section 6 to allow SPY and DIA options to trade in \$1 increments.

Specifically, the Exchange proposes to add Chapter IV, Supplementary Material .01(c) to Section 6⁹ to state that notwithstanding any other provision regarding the interval of strike prices of series of options on ETFs in the rule, the interval of strike prices on SPY and DIA options will

⁷ On August 25, 2014, SPY traded and closed above \$200 for the first time. The SPY closing price on August 25th was \$200.20.

⁸ For rules regarding quarterly options and weekly options (also known as Short Term Options), see Chapter IV, Supplementary Material .04 and Supplementary Material .07 to Section 6, respectively.

⁹ Current Supplementary Material .01(c), (d), (e) to Section 6 would be re-numbered as Supplementary Material .01(d), (e), (f) to Section 6, respectively.

be \$1 or greater. By having smaller strike intervals in SPY and DIA, investors will have more efficient hedging and trading opportunities due to the higher \$1 interval ascension. The proposed \$1 intervals, particularly above a 200 strike price, will result in having at-the-money series based upon the underlying SPY or DIA moving less than 1%, which falls in line with slower price movements of a broad-based index. Furthermore, the proposed \$1 intervals will allow currently employed option trading strategies (such as, for example, risk reduction/hedging strategies using SPY weekly options) to remain in play. Considering that \$1 intervals already exist below the 200 price point and that SPY and DIA are approaching the 200 level, continuing to maintain the artificial 200 level (above which intervals increase 500%, to \$5), will have a negative effect on investing, trading and hedging opportunities and volume. The continued demand for highly liquid options such as SPY and DIA, and the investing, trading, and hedging opportunities they represent, far outweighs any potential negative impact of allowing SPY and DIA options to trade in more finely tailored intervals above a 200 price point.

With the proposal, for example, investors and traders would be able to roll open positions from a lower strike to a higher strike in conjunction with the price movement of the underlying. Under the current rule, where the next higher available series would be \$5 away above a 200 strike price, the ability to roll such positions is effectively negated. Thus, to move a position from a 200 strike to a 205 strike under the current rule, an investor would need for the underlying product to move 2.5%, and would not be able to execute a roll up until such a large movement occurred. With the proposed rule change, however, the investor would be in a significantly safer position of being able to roll his open options position from a 200 to a 201 strike price, which is only a 0.5% move for the underlying.

By allowing SPY and DIA options in \$1 intervals over a 200 strike price, the proposal will moderately augment the total number of options series available on the Exchange. However, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity. The Exchange’s beliefs are supported by the limited nature of the proposal, which applies to two symbols rather than to all ETF products. Moreover, while under the current rule-set there is ample liquidity, it is constricted above 200. This proposal only enhances liquidity at more rational strike intervals necessary to benefit investors as the stock market improves in value.

The Exchange believes that the proposed rule change, like the other strike price programs currently offered by the Exchange, will benefit investors by giving them more flexibility to more closely tailor their investment and hedging decisions by allowing SPY and DIA options to trade in finer \$1 intervals.

2. Statutory Basis

The Exchange believes that the proposed rule change 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.¹⁰ In particular, the proposal is consistent with Section 6(b)(5) of the Act,¹¹ because it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

and open market and a national market system and, in general, to protect investors and the public interest.

In particular, the proposed rule change would add consistency to the SPY and DIA options markets and allow investors to use SPY and DIA options more easily and effectively. Moreover, the proposed rule change would allow investors and traders, whether big or small, to better trade and hedge positions in SPY and DIA options where the strike price is greater than 200, and ensure that SPY and DIA options investors and traders are not at a disadvantage simply because of the strike price.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act,¹² which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and the rules and regulations thereunder, and the rules of the Exchange. The rule change proposal allows the Exchange to respond to customer demand to allow SPY and DIA options to trade in \$1 intervals above a 200 strike price. The Exchange does not believe that the proposed rule would create additional capacity issues or affect market functionality.

As noted above, ETF options trade in wider \$5 intervals above a 200 strike price, whereby options at or below a 200 strike price trade in \$1 intervals. This creates a situation where contracts on the same option class, namely SPY and DIA options, effectively may not be able to execute certain strategies such as, for example, rolling to a higher strike price, simply because of the arbitrary 200 strike price above which options intervals increase by 500%. This proposal remedies the situation by establishing an exception to the current ETF interval regime,

¹² 15 U.S.C. 78f(b)(1).

for SPY and DIA options only, to allow such options to trade in \$1 or greater intervals at all strike prices.

The Exchange believes that the proposed rule change, like other strike price programs currently offered by the Exchange, will benefit investors by giving them increased flexibility to more closely tailor their investment and hedging decisions. Moreover, the proposed rule change is consistent with changes proposed by at least one other exchange.¹³

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and OPRA have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change. The Exchange believes that its members will not have a capacity issue as a result of this proposal.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that the proposed rule change will result in additional investment options and 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. Specifically, the Exchange believes that SPY and DIA option investors and traders will significantly benefit from the availability of finer strike price intervals above a 200 price point.

¹³ See Securities Exchange Act Release No. 72949 (August 29, 2014) (SR-Phlx-2014-46) (approval order). Moreover, the Exchange has noted that other options markets have filed similar proposals to modify the strike price (intervals) regime for specific options. See, e.g., Securities Exchange Act Release No. 72482 (June 26, 2014), 79 FR 37825 (July 2, 2014) (SR-CBOE-2014-051) (notice of filing and immediate effectiveness modifying the strike price regime for Mini-S&P 500 Index (XSP) options).

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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁴ and Rule 19b-4(f)(6) thereunder.¹⁵

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement would allow the Exchange to implement the proposed rule change as soon as possible and thereby harmonize its rules regarding SPY and DIA options intervals with the rules of other markets. The Exchange also stated that waiver would allow market participants to more effectively tailor their investing, trading, and hedging decisions in respect of SPY and DIA options by using finer \$1 increments. For these reasons, the Commission believes that the proposed rule change presents no novel issues and that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest; and will allow the Exchange to

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 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.

remain competitive with other exchanges. Therefore, the Commission designates the proposed rule change to be operative upon filing.¹⁶

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 e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2014-091 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-NASDAQ-2014-091. This file number should be included on the subject line if e-mail is used. To help the Commission process and review

¹⁶ 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).

your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; 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-2014-091 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).