

EXHIBIT 3SPY Option Position Limit Pilot Program Report

The Exchange previously established a pilot program that eliminated position and exercise limits for physically-settled options on the SPDR S&P 500 ETF (“SPY Pilot Program”).<sup>1</sup> Subsequently, the Exchange filed to extend the SPY Pilot Program, originally scheduled to expire on November 27, 2013, until January 27, 2015.<sup>2</sup> In connection with extending the SPY Pilot Program, the Exchange stated that it would prepare a Pilot Report in support of a proposal to extend the SPY Pilot Program, adopt the SPY Pilot Program on a permanent basis or terminate the SPY Pilot Program. The Pilot Report would be submitted within thirty (30) days of the end of the first twelve months of the extended SPY Pilot Program time period and would cover the twelve months that just ended. The Pilot Report would detail the size and different types of strategies employed with respect to positions established as a result of the elimination of position limits in SPY options. In addition, the Pilot Report would 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 SPY Pilot Program. The Pilot Report would compare the impact of the SPY 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 would utilize various data elements such as volume and open interest. In addition the Exchange would make available to Commission staff data elements relating to the effectiveness of the SPY Pilot Program.

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<sup>1</sup> See Securities Exchange Act Release No. 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091).

<sup>2</sup> See Securities Exchange Act Release No. 70878 (November 14, 2013), 78 FR 69737 (November 20, 2013) (SR-CBOE-2013-106).

### Impact on SPY Volumes and Volatility

To assess the impact of the SPY Pilot Program on SPY option volumes, the Exchange compared SPY option monthly volume during January 2013 to December 2013 (the “Pre-Pilot period”) to SPY option monthly volume during January 2014 to December 2014 (the “Pilot period”) (see Table 1 and Table 2).<sup>3</sup> Year-over-year, the average monthly volume in SPY options increased 2.2% and the overall cleared options volume in equity options increased 3.2% from 2013 to 2014.<sup>4</sup>

**TABLE 1: Comparison of SPY Options Volume Pre-Pilot vs. Pilot**

	<b>Pre-Pilot</b>	<b>Pilot</b>
Average Monthly Volume	99,383,292	101,524,363
Average Monthly Customer <sup>5</sup> Volume	36,277,013	37,102,120
Median Monthly Volume	93,783,943	94,867,467
Median Monthly Customer Volume	33,951,894	34,297,731

**TABLE 2: Change in SPY Options Volume Pre-Pilot vs. Pilot**

% Change In Average Monthly Volume Pilot vs. Pre-Pilot	2.2%
% Change in Average Monthly Customer Volume Pilot vs. Pre-Pilot	2.3%
% Change in Median Monthly Volume Pilot vs. Pre-Pilot	1.2%
% Change in Median Monthly Customer Volume Pilot vs. Pre-Pilot	1.0%

<sup>3</sup> The Exchange established the SPY Pilot Program in September 2012; however, not all self-regulatory organizations (“SROs”) had adopted similar rules eliminating position and exercise limits for SPY options when the Exchange sought to renew the SPY Pilot Program in November 2013. It was not until January 2014 that all relevant SROs adopted similar rules eliminating position and exercise limits for SPY options. For this reason, the Exchange is using the time period from January 2013 to December 2013 to assess Pre-Pilot Program activity and the time period from January 2014 to December 2014 to assess SPY Pilot Program activity.

<sup>4</sup> Cleared monthly volume in equity options as reported by The Options Clearing Corporation (“OCC”).

<sup>5</sup> Customer volume as reported by activity clearing in the customer range at the OCC.

The Exchange also compared the open interest in SPY options during the Pilot and Pre-Pilot periods (see Table 3 and Table 4). The average daily open interest of SPY option contracts decreased by 7.2% during the Pilot period.

**TABLE 3: Comparison of Daily SPY Options Open Interest Pre-Pilot vs. Pilot**

	<b>Pre-Pilot</b>	<b>Pilot</b>
Average Daily Open Interest	20,969,374	19,460,800
Median Daily Open Interest	20,929,733	19,007,297

**TABLE 4: Change in Daily SPY Options Open Interest Pre-Pilot vs. Pilot**

% Change in Average Daily Open Interest Pilot vs. Pre-Pilot	-7.2%
% Change in Median Daily Open Interest Pilot vs. Pre-Pilot	-9.2%

To assess the impact of the SPY Pilot Program on volatility in SPY shares, the Exchange looked at the reported opening and closing prices for SPY during the Pre-Pilot and Pilot periods. Using the reported opening and closing prices, the Exchange calculated the maximum and minimum closing prices, daily close-to-close volatility and daily close-to-open volatility for SPY for each period.<sup>6</sup> The Exchange then grouped the results by the first 3 trading days of each month and the 3 trading days up to and including expiration days. By comparing the different measures of price variability during the Pre-Pilot and Pilot periods for regular trading days and expiration days the Exchange was able to ascertain that overall there was not a substantive change in volatility during the SPY Pilot Program. The data does show an increase in volatility during the Pilot Period leading up to and including

<sup>6</sup> Close-to-close volatility is calculated by taking the standard deviation of daily close-to-close price returns and multiplying that value by the square root of 252. Close-to-open volatility is calculated by taking the standard deviation of daily close-to-next day open price returns and multiplying that value by the square root of 252.

expiration; however, volatility during expiration remained relatively low at 9.15%.

The results are shown in Table 5 and Table 6 below.

**TABLE 5: SPY Price Movement**

	<b>Pre-Pilot Period</b>	<b>Pilot Period</b>	<b>% Change</b>
Max	184.69	208.72	13.0%
Min	145.55	174.17	19.7%
Volatility (close-to-close)	11.1%	11.3%	1.4%
Volatility (close-to-open)	6.5%	6.2%	-4.7%

**TABLE 6: Expiration Day Effects**

	<b>Pre-Pilot Period</b>			<b>Pilot Period</b>		
	<b>First 3 Days of the Month</b>	<b>3 Days up to Expiration</b>	<b>% Change</b>	<b>First 3 Days of the Month</b>	<b>3 Days up to Expiration</b>	<b>%Change</b>
Volatility (close-to-close)	12.39%	13.75%	10.91%	10.95%	12.12%	10.76%
Volatility (close-to-open)	7.99%	5.80%	-27.34%	5.80%	9.15%	57.81%

Finally, to assess the impact of the SPY Pilot Program on strategy orders traded at the Exchange, the Exchange looked at the Average Number of Complex Trades per Month and the Average Complex Volume per Month in SPY options. In both instances the number of trades and volume increased by a substantive percentage, indicating that market participants potentially found greater liquidity and improved price discovery.

**TABLE 7: Strategy Orders**

	<b>Pre-Pilot Period</b>	<b>Pilot Period</b>	<b>% Change</b>
Average Number of Trades per Month	1,094	1,674	53.0%
Median Number of Trades per Month	978	1,439	47.1%
Average Volume per Month	99,069	117,591	18.7%
Median Volume per Month	86,454	99,626	15.2%

Conclusion

The Exchange believes that there is evidence to support a continuation of the SPY Pilot Program at this time. The Exchange's study did not reveal any adverse consequences to volatility or changes in open interest due to the SPY Pilot Program. With respect to volume, the SPY Pilot Program has potentially proven to be beneficial to market participants, as demonstrated by the increase in SPY complex volume and SPY complex trades per month during the SPY Pilot vs. Pre-Pilot Period.