

## Exhibit 3

## Report in Support of Extending the SPY Pilot Program

The SPDR S&P ETF Trust (“SPY”) remains the most recognizable and actively traded Exchange Traded Fund (“ETF”). At the end of the most recent analyzed period from January 2016 through June 2016 (“Pilot Period 4”), the Net Asset Value of SPY was just over \$186B<sup>1</sup> which was an increase over the \$182B identified in the last analyzed period prior to this report from January 2015 through June 2015 (“Pilot Period 2”).<sup>2</sup> Additionally trading volume remained similar to the last review with a 3-month average daily volume of 101M shares versus 103M shares traded on average back in June 2015.<sup>1</sup>

The International Securities Exchange LLC, ISE Gemini LLC and ISE Mercury LLC (the “Exchanges”) have eliminated position and exercise limits for physically-settled options on SPY pursuant to a pilot set to end on July 12, 2016 (the “SPY Pilot Program”). The Exchanges are submitting this Pilot Report for the review of two more Pilot Periods: July 2015 through December 2015 (“Pilot Period 3”), and the previously mentioned Pilot Period 4, to provide the Commission with data and written analysis related to the elimination of SPY position limits.

### A. Option Trading Volume, Position Limits, and Open Interest for SPY

#### 1. Trading Volume

During the last year, SPY continued to be the most actively traded multi-listed option product in the industry. In Pilot Periods 3 and 4 it accounted for 16.7% and 16.6% of the industry options volume respectively. In Period 2 it was 14.9% of the option market volume. The volume breakdown in Table A below shows the volume changes from the last Pilot Period through the past year. There was a significant jump in volume when comparing Periods 3 and 4 to Period 2. Similar results were found when analyzing the average and median volumes in SPY. The increases in volumes are likely attributed to increased volatility in August and September 2015 (see Section 3. Underlying Price Volatility, for further information in regards to volatility).

*Industry Option Volume Totals in SPY – Table A*

Measurement	Pilot Period 2 <sup>2</sup>	Pilot Period 3	Pct. Difference	Pilot Period 4	Pct. Difference
Total	291,529,959	364,412,315	25.00%	341,780,022	-6.21%
ADV	2,316,371	2,846,621	22.89%	2,744,393	-3.59%
Median	2,167,300	2,676,667	23.50%	2,659,184	-0.65%
Max	2,840,847	3,611,727	27.14%	3,462,451	-4.13%
Min	1,997,983	2,206,006	10.41%	2,262,206	2.55%

The Exchanges also assessed SPY volumes specifically on expiration over the periods of review when volumes are higher as shown in Table B. There was a major jump in SPY volumes at expiration between Periods 2 and 3 followed by more of the normal numbers in Period 4. The numbers in Pilot Period 3 are significantly affected by the events that occurred in August 2015 and not because of the elimination of SPY position limits.

*Industry Option Volume Totals in SPY at Expiration – Table B*

Pilot Period 2 <sup>3</sup>	Pilot Period 3	Pct. Difference	Pilot Period 4	Pct. Difference
3,263,397	4,799,263	47.06%	3,625,560	-24.46%
3,491,666	4,067,381	16.49%	3,402,761	-16.34%

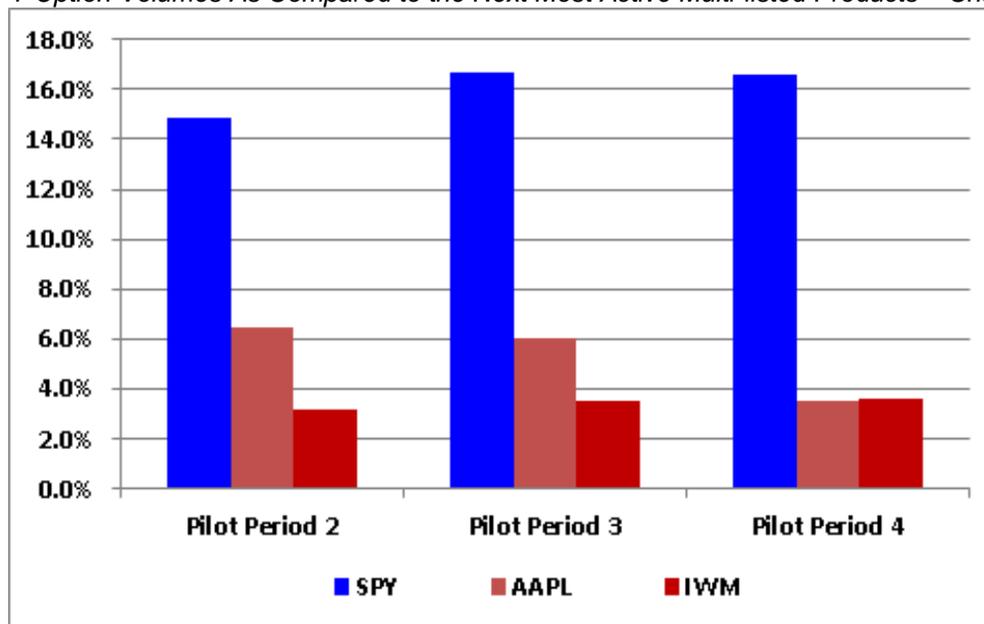
<sup>1</sup> See <http://etfdb.com/compare/market-cap/>

<sup>2</sup> Pilot Period 2 was adjusted to six months (January through June 2015) as six months of data is now available vs. only five months at the time of the last Pilot report.

3,797,478	10,216,618	169.04%	5,420,786	-46.94%
2,012,261	2,336,483	16.11%	2,669,445	14.25%

Having no position limits did not diminish nor increase SPY's popularity. As mentioned earlier, SPY volume continues to outpace the next most active multi-listed option products, AAPL and IWM, by more than double, as identified in Chart A.

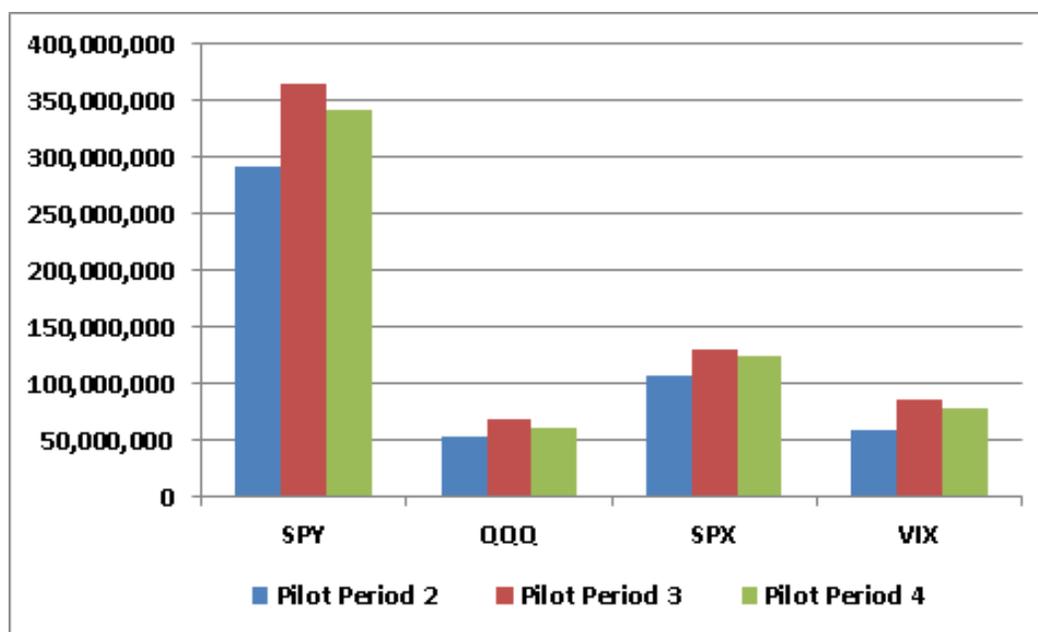
*SPY Option Volumes As Compared to the Next Most Active Multi-listed Products – Chart A*



<sup>3</sup> Pilot Period 2 has six months of data – see footnote 2.

In Chart B the Exchanges reviewed SPY versus other popular option products with and without position limits. From this data, it is evident that SPY trades far more than either the PowerShares QQQ Trust, Series 1 ("QQQ") which currently has a position limit of 900,000 contracts or two popular indexes that do not have position limits, the S&P 500 Index ("SPX"), and CBOE Volatility Index ("VIX"). Eliminating position limits has not changed trading in SPY, and continues to not factor into any volume changes in the other popular products, including ones that haven't had limits for some time now.

*SPY Versus Other Popular Option Products with High or No Position Limits – Chart B*



## 2. Open Interest

Open interest in SPY options on standard expiration between Pilot Periods 2, 3 and 4 were moderately varied with the biggest differences between Periods 2 and 3. But in general open interest remained around 22 million over the periods analyzed. That consistency continues to enforce our belief that position limits have had no effect on the trading of SPY.

*Open Interest<sup>4</sup> in SPY Options on Expiration – Table C*

Pilot Period 2	Pilot Period 3	Pct. Difference	Pilot Period 4	Pct. Difference
20,755,044	22,775,902	9.74%	21,956,776	-3.60%
20,728,234	22,847,604	10.22%	21,448,866	-6.12%
22,391,079	24,352,597	8.76%	24,603,115	1.03%
19,857,407	20,945,541	5.48%	20,015,495	-4.44%

## 3. Underlying Price Volatility

As mentioned earlier, volatility in the underlying stock price of SPY increased in the latter part of Pilot Period 3 as evidenced below, marking a nearly 39% increase over Period 2. Volatility tracked back down towards SPY's typical levels in Period 4 but was still higher than in the early part of 2015 and the last Pilot Period review. As stated in previous reports, volatility was higher between the Pilot Periods but the difference points strongly to short-term market events rather than the elimination of position limits.

*Price Volatility of SPY Underlying Stock<sup>5</sup> – Table C*

Pilot Period 2	Pilot Period 3	Pct. Difference	Pilot Period 4	Pct. Difference
0.783	1.086	38.70%	0.892	-17.87%

## B. Trading Behavior and Exchange Issues

<sup>4</sup> Open Interest was measured on expiration Friday for each month (unless a holiday fell on that day in which case the prior day's data was used) and then averaged over each respective year for the Pre-Pilot and Pilot Periods.

<sup>5</sup> Volatility was measured by taking closing price changes in SPY between monthly expiration periods (approximately four weeks) then averaged for the year. Formula used: Standard Deviation X (Price Change for a Frequency).

There were no noticeable changes to member trading with respect to size or strategy following the extension of the SPY Pilot Program. Also, no problems were observed nor reported during the two Pilot Periods.

### **C. Conclusion**

As identified in the data provided for the two Pilot Periods covering July 2015 through June 2016, there continues to be no undesirable consequences associated with the SPY Pilot Program. Option volume and open interest in SPY remains consistent over the two Periods. In addition, there was no significant increase in volatility in the SPY underlying stock price attributed to changes in Position Limits. The Exchanges thus believe that a continuation of the SPY Pilot Program is warranted at this time.