

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-64945; File No. SR-NYSEArca-2011-47)

July 21, 2011

Self-Regulatory Organizations; NYSE Arca Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Commentary .06 to NYSE Arca Rule 6.8 to Increase Position Limits for Options on the SPDR® S&P 500® Exchange-Traded Fund, which List and Trade under the Option Symbol SPY, and to Update the Names and One Trading Symbol for the Options Reflected therein, Including SPY

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on July 11, 2011, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Commentary .06 to NYSE Arca Rule 6.8 to increase position limits for options on the SPDR® S&P 500® exchange-traded fund (“SPY ETF”),<sup>4</sup> which list and trade under the option symbol SPY, and to update the names and one trading symbol for the options reflected therein, including SPY. The text of the proposed rule change is available at the Exchange’s website at [www.nyse.com](http://www.nyse.com), on the Commission’s Web site at <http://www.sec.gov>, at the Exchange’s principal office, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> “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 SPDR S&P 500 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.

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 purpose of the proposal is to amend Commentary .06 to NYSE Arca Rule 6.8 to increase position limits for SPY options from 300,000 to 900,000 contracts on the same side of the market and to update the names, and one trading symbol, for the options reflected therein, including SPY.<sup>5</sup> The Exchange is basing this proposal on a recently approved rule change by NASDAQ OMX PHLX ("PHLX").<sup>6</sup>

**Background**

Institutional and retail traders have greatly increased their demand for SPY options for hedging and trading purposes, such that these options have experienced an explosive gain in

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<sup>5</sup> By virtue of NYSE Arca Rule 6.9, which is not amended by this filing, exercise limits on SPY options would be the same as position limits for SPY options established in Commentary .06 to NYSE Arca Rule 6.8.

<sup>6</sup> See Securities Exchange Act Release No. 64695 (June 17, 2011), 76 FR 36942 (June 23, 2011) (SR-Phlx-2011-58). The Exchange commented favorably on that PHLX proposal, noting that "the continued disparate treatment of SPY options, which have a position limit and are traded on multiple exchanges, versus SPX options, which have no position limit and are traded exclusively on CBOE [the Chicago Board Options Exchange], only serves to thwart competition and harm the marketplace," and that the "PHLX's Proposal to increase the position limits for SPY options is a step in the right direction." See (<http://www.sec.gov/comments/sr-phlx-2011-58/phlx201158-1.pdf>).

popularity and have been the most actively traded options in the U.S. in terms of volume for the last two years. For example, SPY options traded a total of 33,341,698 contracts across all exchanges from March 1, 2011 through March 16, 2011. In contrast, over the same time period options on the PowerShares QQQ Trust<sup>SM</sup>, Series 1 (“QQQ”<sup>SM</sup>),<sup>7</sup> the third [sic] most actively traded option, traded a total of 8,730,718 contracts (less than 26.2% of the volume of SPY options).

Currently, SPY options have a position limit of only 300,000 contracts on the same side of the market while QQQ options, which are comparable to SPY options but exhibit significantly lower volume, have a position limit of 900,000 contracts on the same side of the market. The Exchange believes that SPY options should, like options on QQQ, have a position limit of 900,000 contracts. Given the increase in volume and continuous unprecedented demand for trading SPY options, the Exchange believes that the current position limit of 300,000 contracts is entirely too low and is a deterrent to the optimal use of the product for hedging and trading purposes. There are multiple reasons to increase the position limit for SPY options.

First, traders have informed the Exchange that the current SPY option position limit of 300,000 contracts, which has remained flat for more than five years despite the tremendous trading volume increase, is no longer sufficient for optimal trading and hedging purposes. SPY options are, as noted, used by large institutions and traders as a means to invest in or hedge the overall direction of the market. Second, SPY options are one-tenth the size of options on the

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<sup>7</sup> QQQ options were formerly known as options on the Nasdaq-100 Tracking Stock<sup>SM</sup> (former option symbol QQQQ<sup>SM</sup>). NASDAQ, Nasdaq-100 Index, Nasdaq-100 Index Tracking Stock and QQQ are trade/service marks of The Nasdaq Stock Market, Inc. and have been licensed for use by Invesco PowerShares Capital Management LLC.

S&P 500 Index, traded under the symbol SPX.<sup>8</sup> Thus, a position limit of 300,000 contracts in SPY options is equivalent to a 30,000 contract position limit in options on SPX. Traders who trade SPY options to hedge positions in SPX options (and the SPY ETF) have indicated on several occasions that the current position limit for SPY options is simply too restrictive, which may adversely affect their (and the Exchange's) ability to provide liquidity in this product. Finally, the products that are perhaps most comparable to SPY options, namely options on QQQ, are subject to a 900,000 contract position limit on the same side of the market.<sup>9</sup> This has, in light of the huge run-up in SPY option trading making them the number one nationally-ranked option in terms of volume, resulted in a skewed and unacceptable SPY option position limit. Specifically, the position limit for SPY options at 300,000 contracts is but 33% of the position limit for the less active options on QQQ at 900,000 contracts.<sup>10</sup> The Exchange proposes that SPY options similarly be subject to a position limit of 900,000 contracts.

The volume and notional value of SPY options and QQQ options as well as the volume and market capitalizations of their underlying ETFs, are set forth below:

<b>Option National Rank</b>	<b>Option Symbol</b>	<b>Name of Underlying ETF</b>	<b>Option ADV 2010</b>	<b>Option Notional Value* As of</b>	<b>Current Options Position</b>
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<sup>8</sup> CBOE, which exclusively lists and trades SPX options, has established that there are no position limits on SPX options. See CBOE Rule 24.4 and Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (SR-CBOE-2001-22).

<sup>9</sup> See Commentary .06 to Rule 6.8 and Securities Exchange Act Release No. 57417 (March 3, 2008), 73 FR 12788 (March 10, 2008) (SR-NYSEArca-2008-26). See also Securities Exchange Act Release No. 51286 (March 1, 2005), 70 FR 11297 (March 8, 2005) (SR-PCX-2003-55).

<sup>10</sup> Similarly to SPY options being one-tenth the size of options on SPX, QQQ options are also one-tenth the size of options on the related index NASDAQ-100 Index (option symbol NDX). The position limit for QQQ options and its related index NDX have a comparable relationship to that of SPY options and SPX. That is, the position limit for options on QQQ is 900,000 contracts and there is no position limit for NDX options.

<b>2010</b>				<b>December 31, 2010</b>	<b>Limit</b>
1	SPY	SPDR S&P 500	3,625,904 contracts	\$177,823,76 million	300,000 contracts
4	QQQ	PowerShares QQQ Trust	963,502 contracts	\$27,141,91 million	900,000 contracts

<b>ETF Nat'l Rank 2010</b>	<b>Name of ETF</b>	<b>ETF ADV 2010</b>	<b>ETF Market Capitalization December 31, 2010</b>	<b>ETF Average Dollar Volume</b>
1	SPDR S&P 500	210,232,241 shares	\$90,280.71 million	\$ 20,794 million
3	PowerShares QQQ Trust	85,602,200 shares	\$23,564.8 million	\$3,593 million

\* Notional value is calculated as follows:  $OI \times Close \times 100$ ; where OI = underlying security's open interest (in contracts), Close = closing price of underlying security on 12/31/2010.

The Exchange notes that the Large Option Position Reporting requirement in NYSE Arca Rule 6.6 would continue to apply. Rule 6.6 requires OTP Holders to file a report with the Exchange with respect to each account in which the OTP Holder has an interest; each account of a partner, officer, director, trustee or employee of such OTP Holder; 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 6.6 also permits the Exchange to impose a higher margin requirement upon the account of an OTP Holder when it determines that the account maintains an under-

hedged position. Furthermore, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.<sup>11</sup>

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 an OTP Holder carrying the account. In addition, the Commission's net capital rule, Rule 15c3-1 under the Securities Exchange Act of 1934 ("Act"),<sup>12</sup> imposes a capital charge on OTP Holders to the extent of any margin deficiency resulting from the higher margin requirement, which should serve as an additional form of protection.

The Exchange believes that position and exercise limits, at their current levels, no longer serve their stated purpose. There has been a steadfast and significant increase over the last decade in the overall volume of exchange-traded options; position limits, however, have not kept up with the volume. Part of this volume is attributable to a corresponding increase in the number of overall market participants, which has, in turn, brought about additional depth and increased liquidity in exchange-traded options.<sup>13</sup>

As the anniversary of listed options trading approaches its fortieth year, the Exchange believes that the existing surveillance procedures and reporting requirements at the Exchange,

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<sup>11</sup> 17 CFR 240.13d-1

<sup>12</sup> 17 CFR 240.15c3-1.

<sup>13</sup> The Commission has previously observed that: "Since the inception of standardized options trading, the options exchanges have had rules imposing limits on the aggregate number of options contracts that a member or customer could hold or exercise. These rules are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In particular, position and exercise limits are designed to minimize the potential for mini-manipulations and for corners or squeezes of the underlying market. In addition such limits serve to reduce the possibility for disruption of the options market itself, especially in illiquid options classes." See Securities Exchange Act Release No. 39489 (December 24, 1997), 63 FR 276, 278 (January 5, 1998) (SR-CBOE-97- 11) (footnote omitted).

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.<sup>14</sup>

Finally, the Exchange believes that while position limits on options on QQQ, which as noted are similar to SPY options, has been gradually expanded from 75,000 contracts to the current level of 900,000 contracts since 2005, there have been no adverse effects on the market as a result of this position limit increase.<sup>15</sup> Likewise, there have been no adverse effects on the market from expanding the position limit for SPY options from 75,000 contracts to the current level of 300,000 contracts in 2005.<sup>16</sup>

The Exchange believes that restrictive option position limits prevent large customers, such as mutual funds and pension funds, from using options to gain meaningful exposure to and hedging protection through the use of SPY options. This can result in lost liquidity in both the options market and the equity market. The proposed position limit increase would remedy this situation to the benefit of large as well as retail traders, investors, and public customers. The Exchange believes that increasing position and exercise limits for SPY options would lead to a more liquid and competitive market environment for SPY options that would benefit customers interested in this product.

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<sup>14</sup> These procedures have been effective for the surveillance of SPY options trading and will continue to be employed.

<sup>15</sup> See supra note 9.

<sup>16</sup> See Securities Exchange Act Release No. 51044 (January 14, 2005), 70 FR 3415 (January 24, 2005) (SR-PCX-2005-05).

## **Update to Names**

The Exchange proposes non-substantive technical changes to update the names and one trading symbol for the option products specifically identified within Commentary .06 to NYSE Arca Rule 6.8. This change would result in Commentary .06 reflecting the current names and symbols by which these products trade in the marketplace as follows: PowerShares QQQ Trust ("QQQQ") changes to PowerShares QQQ Trust<sup>SM</sup>, Series 1 ("QQQ"); Standard and Poor's Depository Receipts changes to SPDR<sup>®</sup> S&P 500<sup>®</sup> ETF ("SPY"); and DIAMONDS changes to SPDR<sup>®</sup>Dow Jones Industrial Average<sup>SM</sup> ETF Trust (DIA).

### **2. Statutory Basis**

The proposed rule change is consistent with Section 6(b)<sup>17</sup> of the Act, in general, and furthers the objectives of Section 6(b)(5),<sup>18</sup> 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 is proposing to expand the position limits on SPY options. The Exchange believes that this proposal would be beneficial to large market makers (which generally have the greatest potential and actual ability to provide liquidity and depth in the product), as well as retail traders, investors, and public customers.

#### **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.

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<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

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, if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given 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 proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>19</sup> and Rule 19b-4(f)(6) (iii) thereunder.<sup>20</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>21</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>22</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposal may become operative immediately upon

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<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4(f)(6).

<sup>21</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires that a self-regulatory organization submit to the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the filing of the proposed rule change, or such shorter time as designated by the Commission. The Commission notes that the Exchange has satisfied this requirement.

<sup>22</sup> 17 CFR 240.19b-4(f)(6)(iii).

filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest, because it will enable the Exchange to immediately compete with other exchanges that have already adopted the higher position and exercise limit for options on the SPY. Therefore, the Commission designates the proposal operative upon filing.<sup>23</sup>

At any time within 60 days of the filing of such 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2011-47 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.

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<sup>23</sup> 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).

All submissions should refer to File Number SR-NYSEArca-2011-47. This file number should be included on the subject line if e-mail 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; 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 No. SR-NYSEArca-2011-47 and should be submitted on or before [insert date 21 days from date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>24</sup>

Elizabeth M. Murphy  
Secretary

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<sup>24</sup> 17 CFR 200.30-3(a)(12).