

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82094; File No. SR-NYSEArca-2017-128)

November 16, 2017

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 6.4-O (Series of Options Open for Trading)

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on November 2, 2017, NYSE Arca, Inc. (“Exchange”) 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 Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.4-O (Series of Options Open for Trading). The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://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.

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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.

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

1. Purpose

The purpose of the filing is to amend Commentary .05 to Rule 6.4-O to modify the strike price intervals for certain Exchange Traded Funds (each an “ETF”). Specifically, the Exchange proposes to modify the interval setting regime for options on SPDR® S&P 500® ETF (“SPY”), iShares Core S&P 500 ETF (“IVV”), and the SPDR® Dow Jones® Industrial Average ETF (“DIA”) to allow the Exchange to initiate \$1 or greater strike price intervals above \$200. Through this filing, the Exchange intends to make SPY, IVV, and DIA options more tailored and easier for investors and traders to use, which is consistent with the rules of other options exchanges.<sup>4</sup>

Currently, the S&P 500 Index is above 2000.<sup>5</sup> The S&P 500 Index is widely regarded as the best single gauge of large cap U.S. equities and is widely quoted as an indicator of stock prices and investor confidence in the securities market. As a result, individual investors often

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<sup>4</sup> See, e.g., Chicago Board of Options Exchange (“CBOE”) Rule 5.5, Interpretation and Policy .08; NASDAQ PHLX LLC (“PHLX”) Rule 1012, Commentary .05. CBOE and PHLX both amended their rules regarding strike setting regimes for SPY and DIA in 2014. See Securities Exchange Act Release Nos. 72949 (August 29, 2014) 79 FR 53089 (September 5, 2014)(SR-Phlx-2014-46) and 72990 (September 4, 2014) 79 FR 53799 (September 10, 2014)(SR-CBOE-2014-068). Earlier this year, CBOE and PHLX further modified their rules to include IVV in the same strike setting regime as SPY. See Securities Exchange Act Release Nos. 80913 (June 13, 2017), 82 FR 27907 (June 19, 2017) (SR-CBOE-2017-048) and 81246 (July 28, 2017) 82 FR 36020 (August 2, 2017) (SR-Phlx-2017-57). The Exchange is authorized to match (and has matched) strikes in DIA, SPY, and IVV that are listed on other exchanges such as CBOE and PHLX. See Rule 6.4A-O(b)(vi) (providing that the Exchange “may list an options series that is listed by another options exchange, provided that at the time such series was listed it was not prohibited under the provisions of the [Options Listing Procedure Plan or OLPP] or the rules of the exchange that initially listed the series”). The proposed rule change would allow the Exchange to initially list strike price intervals of \$1 or greater in options on DIA, SPY, or IVV when the strike price is above \$200 (regardless of whether other exchanges similarly list such strikes).

<sup>5</sup> On October 30, 2017, the S&P 500 Index closed at 2,572.83.

use S&P 500 Index-related products to diversify their portfolios and benefit from market trends. Accordingly, the Exchange believes that offering a wide range of S&P 500 Index-based options affords traders and investors important hedging and trading opportunities. SPY and IVV are identical in all material respects and are designed to track the performance of the S&P 500 Index. Shares of SPY and IVV are currently priced around 1/10<sup>th</sup> the value of S&P 500 Index. The Dow Jones Industrial Average (“DJIA”) is currently above 20,000 and is one of the most widely followed market indices.<sup>6</sup> Shares of DIA are currently priced around 1/100<sup>th</sup> of the DJIA. Accordingly, SPY and IVV strike prices – having a multiplier of \$100 – reflect a value roughly equal to 1/10th of the value of the S&P 500 Index. For example, if the S&P 500 Index is at 1972.56, shares of SPY and IVV might have a value of approximately 197.26 per share. Consequently, an at-the-money option on SPY or IVV, with a strike price of \$197.00 will have a notional value of \$19,700. In general, SPY and IVV (and, to a lesser extent, DIA) options provide retail investors and traders with the benefit of trading the broad market in a manageably sized contract.

The Exchange notes that the popularity of options on DIA and SPY (and, to a lesser extent, IVV) is evidenced by the existence of monthly, quarterly, and weekly expiration cycles in these ETFs.<sup>7</sup> Currently, Commentary .05(a) to Rule 6.4-O provides that the “interval of strike prices of series of options on Exchange-Traded Fund Shares will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is greater than \$200.”<sup>8</sup>

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<sup>6</sup> On October 30, 2017, the DJIA closed at 23,348.74.

<sup>7</sup> For rules regarding quarterly or weekly options (also known as Short Term Options or STOS), see Commentaries .07 and .08, respectively, to Rule 6.4-O.

<sup>8</sup> See Rule 6.4-O, Commentary 5(a). See also Rule 6.4-O, Commentary .07 (e) (providing, in relevant part, that [i]f the class does not trade in \$1 strike price intervals, the strike price interval for Short Term Option Series may be (i) \$0.50 or greater where the strike price is less than \$100; (ii) \$1.00 or greater where the strike price is between \$100 and

Thus, unless the Exchange is able to match strikes listed on other exchanges (see supra note 4), the current rule limits the trading and hedging possibilities for investors on the Exchange – particularly those investors that would like to execute strategies that are effective in \$1 intervals. The Exchange therefore proposes to amend Commentary .05 to Rule 6.4-O to allow the Exchange to initiate \$1 strike price intervals in options on SPY, IVV, and DIA. As proposed, the modified rule would provide that “[n]otwithstanding any other provision of this rule regarding the interval of strike prices of series of options on Exchange-Traded Fund Shares, the interval of strike prices on options on [SPY, IVV, and DIA] will be \$1 or greater.”<sup>9</sup>

The Exchange believes that modifying the Rule to allow the Exchange to initiate finer – i.e., one dollar – strike intervals in SPY, IVV, and DIA, would provide investors more efficient hedging and trading opportunities. In particular, the proposed ability to initiate \$1 intervals, particularly above a \$200 strike price, will result in having at-the-money series based upon the underlying SPY, IVV, or DIA moving less than 1%. The Exchange believes this strike setting regime is consistent with slower price movements of broad-based indices. Furthermore, the proposed ability to initiate \$1 intervals would allow investors to continue to employ certain option trading strategies (e.g., risk reduction/hedging strategies using SPY weekly options) without the Exchange having to wait for another exchange to list such strikes. Considering that \$1 intervals already exist below the \$200 price point, and that SPY, IVV, and DIA are above the \$200 level, the Exchange believes it would be appropriate to modify the existing \$200 level (above which intervals increase 500% to \$5) for options on these ETFs.

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\$150; or (iii) \$2.50 or greater for strike prices greater than \$150. A non-Short Term Option that is on a class that has been selected to participate in the Short Term Option Series Program is referred to as a “Related non-Short Term Option”).

<sup>9</sup> See proposed Rule 6.4-O, Commentary 5(d).

The Exchange believes that eliminating the existing \$200 level would allow investors to continue investing, trading and utilizing hedging strategies on these highly-liquid options.

Under the current rule, the Exchange is limited in its ability to initiate strikes in options on IVV, DIA, and SPY over \$200. Assuming no other exchange lists the desired strike, investors and traders on the Exchange are unable to roll open positions from a lower strike to a higher strike in conjunction with the price movement of the underlying index because the next (higher) available series would be \$5 away above a \$200 strike price.<sup>10</sup> Thus, to initiate a position from \$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 to allow the Exchange to initiate finer strikes in options on IVV, DIA, and SPY over the \$200 level, 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.<sup>11</sup>

The proposed rule change would allow the Exchange to better respond to customer demand for SPY, IVV, and DIA strike prices more precisely aligned with current S&P 500 Index and DJIA values.<sup>12</sup> The Exchange believes that the proposed rule change, like the other strike price programs currently offered by the Exchange, would benefit investors by continuing to provide investors the flexibility to more closely tailor their investment and hedging decisions using options on SPY, IVV, and DIA. By allowing the Exchange to initiate the listing of series of options on SPY, IVV, and DIA in \$1 intervals between strike prices over \$200, the proposal would moderately augment the potential total number of options

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<sup>10</sup> See Rule 6.4-O, Commentary 5(a).

<sup>11</sup> See proposed Rule 6.4-O, Commentary 5(d).

<sup>12</sup> See supra notes 5, 6.

series available on the Exchange.<sup>13</sup> However, the Exchange believes 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 also believes that members will not have a capacity issue due to the proposed rule change. Finally, the Exchange represents that it does not believe that this expansion will cause fragmentation of liquidity.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b)<sup>14</sup> of the Act, in general, and furthers the objectives of Section 6(b)(5),<sup>15</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, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>10</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change would promote just and equitable principles of trade by allowing the Exchange to initiate strikes in options on IVV, DIA, and SPY over \$200, which would result in continued trading and hedging opportunities in options on these ETFs. The proposed change would likewise ensure that such options investors are not at a disadvantage simply because of the strike price.

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<sup>13</sup> As noted herein (see supra note 4), the Exchange has matched strikes listed by other exchanges in options on IVV, DIA and SPY.

<sup>14</sup> 15 U.S.C. 78f(b).

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

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act, 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 options on SPY, IVV, and DIA 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, under the current rule (absent another exchange listing strikes that the Exchange could match)<sup>16</sup>, ETF options trade in wider \$5 intervals above a \$200 strike price, whereas options at or below a \$200 strike price trade in \$1 intervals. This creates a situation where contracts on the same option class 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 \$5. This proposal establishes a clear exception to the current ETF interval regime for options on SPY, IVV, and DIA to allow the Exchange to initiate the listing of 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, would remove impediments to and perfect the mechanisms of a free and open market and a national market system to the benefit of investors by giving them increased flexibility to more closely tailor their investment and hedging decisions. Finally, the proposal would foster cooperation and coordination with persons engaged in facilitating transactions in securities as this proposal would align Exchange rules with those of

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<sup>16</sup> See supra note 4.

other exchanges – including CBOE and PHLX – to permit finer strikes in IVV, DIA, and SPY.<sup>17</sup>

With regard to the impact of this proposal on system capacity, the Exchange believes 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 not necessary or appropriate in furtherance of the purposes of the Act. Rather, the proposed rule change would enable the Exchange to better compete with other options exchanges that have already adopted the proposed strike setting regime.<sup>13</sup> Although the Exchange is able to match strikes listed by other exchanges, this proposal would allow the [sic] initiate strikes in IVV, DIA, and SPY regardless of strikes listed on other exchanges, which should help level the playing field for investors investing in, trading and utilizing hedging strategies on these options

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>18</sup> and Rule 19b-4(f)(6) thereunder.<sup>19</sup> Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest, (ii) impose any

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<sup>17</sup> See supra note 4.

<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>19</sup> 17 CFR 240.19b-4(f)(6).



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<sup>20</sup> and Rule 19b-4(f)(6) thereunder.<sup>21</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii), the Commission may 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 proposal may become operative immediately upon filing. As noted above, the proposal would allow the Exchange to initiate \$1 or greater strike price intervals above \$200 for options on SPY, DIA, and IVV. Substantially similar rules are already in place at CBOE and PHLX, and the Exchange currently has the ability to list, and does list, these strike price intervals pursuant to its matching authority in Rule 903A(b)(vi). The Commission therefore believes that waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change to be operative upon filing.<sup>22</sup>

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

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 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.

<sup>22</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).

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-2017-128 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-2017-128. 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 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. 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-2017-128 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.<sup>23</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>23</sup> 17 CFR 200.30-3(a)(12).