



8011-01P

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83156; File No. SR-ISE-2018-39)

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend ISE Rules 412, Position Limits, and 414, Exercise Limits

May 2, 2018

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 20, 2018, Nasdaq ISE, LLC (“ISE” 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 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 Substance of the Proposed Rule Change

The Exchange proposes to amend ISE Rules 412, Position Limits, and 414, Exercise Limits, to increase the position and exercise limits for options on the following exchange traded funds (“ETFs”): iShares China Large-Cap ETF (“FXI”), iShares MSCI EAFE ETF (“EFA”), iShares MSCI Emerging Markets ETF (“EEM”), iShares Russell 2000 ETF (“IWM”), iShares MSCI Brazil Capped ETF (“EWZ”), iShares 20+ Year Treasury Bond Fund ETF (“TLT”), PowerShares QQQ Trust (“QQQQ”), and iShares MSCI Japan Index (“EWJ”).

The text of the proposed rule change is available on the Exchange’s Website at <http://ise.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Exchange 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. The Exchange 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

Position Limit Increase

Position limits for options on ETFs such as those subject to this proposal are determined pursuant to Exchange Rule 412, and, with certain exceptions, vary by tier according to the number of outstanding shares and the trading volume of the underlying security. Options in the highest tier – i.e., options that overlie securities with the largest numbers of outstanding shares and trading volumes - have a standard option position limit of 250,000 contracts (with adjustments for splits, re-capitalizations, etc.) on the same side of the market. In addition, Rule 412 currently sets forth separate position limits for options on certain ETFs, including 500,000 contracts for options on EEM and IWM, and 900,000 contracts for options on QQQQ.

The Exchange proposes to revise Rule 412 to increase the position limits for options on certain ETFs, as described more fully below.³ The Exchange believes that increasing the

³ ISE Rule 414 establishes exercise limits for the corresponding options at the same levels as the corresponding security's position limits. Rule 414 would be amended such that the exercise limits for each of these options would be increased to the level of the new position limits.

position limits for these options will lead to a more liquid and competitive market environment for these options that will benefit customers interested in these products.

First, the Exchange proposes to increase the position limits for options on FXI, EFA, EWZ, TLT, and EWJ, each of which fall into the highest standard tier set forth in Exchange Rule 412(d)(5). Rule 412, Supplementary Material .01, would be amended to increase the current position limit of 250,000 contracts for options on these securities to 500,000 contracts.

Second, the Exchange proposes to increase the position limits for options on EEM and IWM from 500,000 contracts to 1,000,000 contracts.⁴

Finally, the Exchange proposes to increase the position limits on options on QQQQ from 900,000 contracts to 1,800,000 contracts.

In support of this proposal, the Exchange represents that the above listed ETFs qualify for either: (i) the initial listing criteria set forth in Exchange Rule 502(h) for ETFs holding non-U.S. component securities; or (ii) for ETFs listed pursuant to generic listing standards for series of portfolio depository receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement (“CSA”) is not required.⁵ FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks.⁶ EEM tracks the performance of the MSCI Emerging Markets Index, which is composed of approximately 800 component securities.⁷ The MSCI Emerging Markets Index consists of the

⁴ The Exchange is also amending Rules 412 and 414 to update and correct the names of IWM and EEM, which are currently referred to in that rule as the iShares® Russell 2000® Index Fund and iShares MSCI Emerging Markets Index Fund, respectively.

⁵ The Exchange notes that the initial listing criteria for options on ETFs that hold non-U.S. component securities are more stringent than the maintenance listing criteria for those same ETF options. See Exchange Rule 503(h).

⁶ See <https://www.ishares.com/us/products/239536/ishares-china-largecap-etf>.

⁷ See http://us.ishares.com/product_info/fund/overview/EEM.htm.

following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.⁸ IWM tracks the performance of the Russell 2000 Index, which is composed of 2,000 small-cap domestic stocks.⁹ EFA tracks the performance of MSCI EAFE Index, which has over 900 component securities.¹⁰ The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.¹¹ EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil.¹² TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds.¹³ QQQQ tracks the performance of the Nasdaq-100 Index, which is composed of 100 of the largest domestic and international nonfinancial companies listed on the Nasdaq Stock Market LLC (“Nasdaq”).¹⁴ EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan.¹⁵

The Exchange represents that more than 50% of the weight of the securities held by the options subject to this proposal are also subject to a CSA.¹⁶ Additionally, the component

⁸ See <http://www.msci.com/products/indices/tools/index.html#EM>.

⁹ See <https://www.ishares.com/us/products/239710/ishares-russell-2000-etf>.

¹⁰ See <https://www.ishares.com/us/products/239623/>.

¹¹ See <https://www.msci.com/eafe>.

¹² See <https://www.ishares.com/us/products/239612/ishares-msci-brazil-capped-etf>.

¹³ See <https://www.ishares.com/us/products/239454/>.

¹⁴ See <https://www.invesco.com/portal/site/us/financial-professional/etfs/productdetail?productId=QQQ&ticker=QQQ&title=powershares-qqq>.

¹⁵ See <https://www.ishares.com/us/products/239665/EWJ>.

¹⁶ See Exchange Rule 502(h)(b)(2).

securities of the MSCI Emerging Markets Index on which EEM is based for which the primary market is in any one country that is not subject to a CSA do not represent 20% or more of the weight of the MSCI Emerging Markets Index.¹⁷ Finally, the component securities of the MSCI Emerging Markets Index on which EEM is based, for which the primary market is in any two countries that are not subject to CSAs do not represent 33% or more of the weight of the MSCI Emerging Markets Index.¹⁸

Market participants have increased their demand for options on FXI, EFA, EWZ, TLT, and EWJ for hedging and trading purposes and the Exchange believes the current position limits are too low and may be a deterrent to successful trading of options on these securities.

The CBOE Analysis

The Commission has recently approved a proposed rule change of the Chicago Board Options Exchange (“CBOE”) to increase position limits for these same options.¹⁹ The discussion that follows is based upon the CBOE’s analysis presented in that proposal.

In its proposal, CBOE stated that it had collected the following trading statistics on the ETFs that are subject to this proposal:

ETF	2017 ADV (Mil. Shares)	2017 ADV (option contracts)	Shares Outstanding (Mil.)	Fund Market Cap (\$Mil.)
FXI	15.08	71,944	78.6	\$3,343.6
EEM	52.12	287,357	797.4	\$34,926.1

¹⁷ See Exchange Rule 502(h)(b)(3).

¹⁸ See Exchange Rule 502(h)(b)(4).

¹⁹ See Securities Exchange Act Release No. 82770 (February 23, 2018) (approving SR-CBOE-2017-057).

IWM	27.46	490,070	253.1	\$35,809.1
EFA	19.42	98,844	1178.4	\$78,870.3
EWZ	17.08	95,152	159.4	\$6,023.4
TLT	8.53	80,476	60.0	\$7,442
QQQQ	26.25	579,404	351.6	\$50,359.7
EWJ	6.06	4,715	303.6	\$16,625.1
SPY	64.63	2,575,153	976.23	\$240,540.0

In support of its proposal to increase the position limits for QQQQ to 1,800,000 contracts, CBOE compared the trading characteristics of QQQQ to that of the SPDR S&P 500 ETF (“SPY”), which has no position limits. As shown in the above table, the average daily trading volume through August 14, 2017 for QQQQ was 26.25 million shares compared to 64.63 million shares for SPY. The total shares outstanding for QQQQ are 351.6 million compared to 976.23 million for SPY. The fund market cap for QQQQ is \$50,359.7 million compared to \$240,540 million for SPY. SPY is one of the most actively trading ETFs and is, therefore, subject to no position limits. QQQQ is also very actively traded, and while not to the level of SPY, should be subject to the proposed higher position limits based on its trading characteristics when compared to SPY. The proposed position limit coupled with QQQQ’s trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in its underlying the options.

In support of its proposal to increase the position limits for EEM and IWM from 500,000 contracts to 1,000,000 contracts, CBOE also compared the trading characteristics of EEM and IWM to that of QQQQ, which currently has a position limit of 900,000 contracts. As shown in

the above table, the average daily trading volume through July 31, 2017 for EEM was 52.12 million shares and IWM was 27.46 million shares compared to 26.25 million shares for QQQQ. The total shares outstanding for EEM are 797.4 million and for IWM are 253.1 million compared to 351.6 million for QQQQ. The fund market cap for EEM is \$34,926.1 million and IWM is \$35,809 million compared to \$50,359.7 million for QQQQ. EEM, IWM and QQQQ have similar trading characteristics and subjecting EEM and IWM to the proposed higher position limit would continue be designed to address potential manipulate schemes that may arise from trading in the options and their underlying securities. These above trading characteristics for QQQQ when compared to EEM and IWM also justify increasing the position limit for QQQQ. QQQQ has a higher options ADV than EEM and IWM, a higher numbers of shares outstanding than IWM and a much higher market cap than EEM and IWM which justify doubling the position limit for QQQQ. CBOE concluded that, based on these statistics, and as stated above, the proposed position limit coupled with QQQQ's trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in the securities underlying the options.

In support of its proposal to increase the position limits for FXI, EFA, EWZ, TLT, and EWJ from 250,000 contracts to 500,000 contracts, CBOE compared the trading characteristics of FXI, EFA, EWZ, TLT, and EWJ to that of EEM and IWM, both of which currently have a position limit of 500,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for FXI is 15.08 million shares, EFA is 19.42 million shares, EWZ is 17.08 million shares, TLT is 8.53 million shares, and EWJ is 6.06 million shares compared to 52.12 million shares for EEM and 27.46 million shares for IWM. The total shares outstanding for FXI is 78.6 million, EFA is 1178.4 million, EWZ is 159.4 million, TLT is 60 million, and

EWJ is 303.6 million compared to 797.4 million for EEM and 253.1 million for IWM. The fund market cap for FXI is \$3,343.6 million, EFA is \$78,870.3 million, EWZ is \$6,023.4 million, TLT is \$7,442.4 million, and EWJ is \$16,625.1 million compared to \$34,926.1 million for EEM and \$35,809.1 million for IWM.

In Partial Amendment No. 1 to its proposed rule change, CBOE provided additional analysis and support for its proposed rule change.²⁰ According to CBOE, market participants' trading activity has been adversely impacted by the current position limits as such limits have caused options trading in the symbols subject to the proposed rule change to move from exchanges to the over-the-counter market. CBOE stated it had submitted the proposed rule change at the request of market participants whose on-exchange activity has been hindered by the existing position limits causing them to be unable to provide additional liquidity not just on CBOE, but also on other options exchanges on which they participate.

CBOE stated it understood that certain market participants wishing to make trades involving a large number of options contracts in the symbols subject to the proposed rule change are opting to execute those trades in the over-the-counter market, that the over-the counter transactions occur via bilateral agreements the terms of which are not publicly disclosed to other market participants, and that therefore, these large trades do not contribute to the price discovery process performed on a lit market. It stated that position limits are designed to address potential manipulative schemes and adverse market impact surrounding the use of options, such as disrupting the market in the security underlying the options, and that the potential manipulative schemes and adverse market impact are balanced against the potential of setting the limits so low as to discourage participation in the options market. It stated that the level of those position

²⁰ See SR-CBOE-2017-057, Partial Amendment No. 1 (November 22, 2017).

limits must be balanced between curtailing potential manipulation and the cost of preventing potential hedging activity that could be used for legitimate economic purposes.

CBOE observed that the ETFs that underlie options subject to the proposed rule change are highly liquid, and are based on a broad set of highly liquid securities and other reference assets, and noted that the Commission has generally looked through to the liquidity of securities comprising an index in establishing position limits for cash-settled index options. It further noted that options on certain broad-based security indexes have no position limits. CBOE observed that the Commission has recognized the liquidity of the securities comprising the underlying interest of the SPDR S&P 500 ETF (“SPY”) in permitting no position limits on SPY options since 2012,²¹ and expanded position limits for options on EEM, IWM and QQQQ.

CBOE stated that the creation and redemption process for these ETFs also lessen the potential for manipulative activity, explaining that when an ETF company wants to create more ETF shares, it looks to an Authorized Participant, which is a market maker or other large financial institution, to acquire the securities the ETF is to hold. For instance, IWM is designed to track the performance of the Russell 2000 Index, the Authorized Participant will purchase all the Russell 2000 constituent securities in the exact same weight as the index, then deliver those shares to the ETF provider. In exchange, the ETF provider gives the Authorized Participant a block of equally valued ETF shares, on a one-for-one fair value basis. The price is based on the net asset value, not the market value at which the ETF is trading. The creation of new ETF units can be conducted all trading day and is not subject to position limits. This process can also work in reverse where the ETF company seeks to decrease the number of shares that are available to trade. The creation and redemption process, therefore, creates a direct link to the underlying

²¹ See Securities Exchange Act Release No. 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091).

components of the ETF, and serves to mitigate potential price impact of the ETF shares that might otherwise result from increased position limits. The ETF creation and redemption seeks to keep ETF share prices trading in line with the ETF's underlying net asset value. Because an ETF trades like a stock, its price will fluctuate during the trading day, due to simple supply and demand. If demand to buy an ETF is high, for instance, the ETF's share price might rise above the value of its underlying securities. When this happens, the Authorized Participant believes the ETF may now be overpriced, and can buy the underlying shares that compose the ETF and then sell ETF shares on the open market. This should help drive the ETF's share price back toward fair value. Likewise, if the ETF starts trading at a discount to the securities it holds, the Authorized Participant can buy shares of the ETF and redeem them for the underlying securities. Buying undervalued ETF shares should drive the price of the ETF back toward fair value. This arbitrage process helps to keep an ETF's price in line with the value of its underlying portfolio.

CBOE stated that in proposing the increased position limits, the Exchange considered the availability of economically equivalent products and their respective position limits. For instance, some of the ETFs underlying options subject to the proposed rule change are based on broad-based indices that underlie cash settled options that are economically equivalent to the ETF options that are the subject of the proposed rule change and have no position limits. Other ETFs are based on broad-based indexes that underlie cash-settled options with position limits reflecting notional values that are larger than the current position limits for ETF analogues (EEM, EFA). Where there was no approved index analogue, CBOE stated its belief, based on the liquidity, breadth and depth of the underlying market, that the index referenced by the ETF

would be considered a broad-based index.²² CBOE argued that if certain position limits are appropriate for the options overlying the same index or is an analogue to the basket of securities that the ETF tracks, then those same economically equivalent position limits should be appropriate for the option overlying the ETF. In addition, CBOE observed, the market capitalization of the underlying index or reference asset is large enough to absorb any price movements that may be caused by an oversized trade. Also, the Authorized Participant or issuer may look to the stocks comprising the analogous underlying index or reference asset when seeking to create additional ETF shares are part of the creation/redemption process to address supply and demand or to mitigate the price movement the price of the ETF. CBOE offered the following specific examples to illustrate:

QQQQ

For example, the PowerShares QQQ Trust or QQQQ is an ETF that tracks the Nasdaq 100 Index or NDX, which is an index composed of 100 of the largest non-financial securities listed on Nasdaq. Options on NDX are currently subject to no position limits but share similar trading characteristics as QQQQ. Based on QQQQ's share price of \$154.54²³ and NDX's index level of 6,339.14, approximately 40 contracts of QQQQ equals one contract of NDX. Assume that NDX was subject to the standard position limit of 25,000 contracts for broad-based index options. Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000 contracts for QQQQ as NDX's analogue. However, NDX is not subject to position limits and has an average daily trading volume of 15,300 contracts. QQQQ is currently subject to a position limit of 900,000 contracts but has a much higher average daily

²² CBOE Rule 24.4 and Exchange Rule 2004 set forth the CBOE and the ISE position limits for broad-based index options.

²³ CBOE stated that all share prices used in its analysis were based on the closing price of the security on November 16, 2017 and cited Yahoo Finance as the source.

trading volume of 579,404 contracts. Furthermore, NDX currently has a market capitalization of \$17.2 trillion and QQQQ has a market capitalization of \$50,359.7 million, and the component securities of NDX, in aggregate, have traded an average of 440 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the QQQQ. The Commission has also approved no position limit for NDX, although it has a much lower average daily trading volume than its analogue, the QQQQ. Therefore, CBOE concluded and the Exchange agrees it was reasonable to increase the position limit for options on the QQQQ from 900,000 to 1,800,000 contracts.

IWM

The iShares Russell 2000 ETF or IWM, is an ETF that also tracks the Russell 2000 Index or RUT, which is an index that is composed of 2,000 small-cap domestic companies in the Russell 3000 index. Options on RUT are currently subject to no position limits but share similar trading characteristics as IWM. Based on IWM's share price of \$144.77 and RUT's index level of 1,486.88, approximately 10 contracts of IWM equals one contract of RUT. Assume that RUT was subject to the standard position limit of 25,000 contracts for broad-based index options under Exchange Rule 24.4(a). Based on the above comparison of notional values, this would result in a position limit equivalent to 250,000 contracts for IWM as RUT's analogue. However, RUT is not subject to position limits and has an average daily trading volume of 66,200 contracts. IWM is currently subject to a position limit of 500,000 contracts but has a much higher average daily trading volume of 490,070 contracts. The Commission has approved no position limit for RUT, although it has a much lower average daily trading volume than its analogue, the IWM. Furthermore, RUT currently has a market capitalization of \$2.4 trillion and IWM has a market capitalization of \$35,809.1 million, and the component securities of RUT, in

aggregate, have traded an average of 270 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the IWM. Therefore, CBOE concluded and the Exchange agrees it is reasonable to increase the position limit for options on the IWM from 500,000 to 1,000,000 contracts.

EEM

EEM tracks the performance of the MSCI Emerging Markets Index or MXEF, which is composed of approximately 800 component securities following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Based on EEM's share price of \$47.06 and MXEF's index level of 1,136.45, approximately 24 contracts of EEM equals one contract of MXEF. MXEF is currently subject to the standard position limit of 25,000 contracts for broad-based index options. Based on the above comparison of notional values, this would result in a position limit economically equivalent to 604,000 contracts for EEM as MXEF's analogue. However, MXEF has an average daily trading volume of 180 contracts. EEM is currently subject to a position limit of 500,000 contracts but has a much higher average daily trading volume of 287,357 contracts. Furthermore, MXEF currently has a market capitalization of \$5.18 trillion and EEM has a market capitalization of \$34,926.1 million, and the component securities of MXEF, in aggregate, have traded an average of 33.6 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the EEM. Therefore, based on the comparison of average daily trading volume, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on the IWM from 500,000 to 1,000,000 contracts.

EFA

EFA tracks the performance of MSCI EAFE Index or MXEA, which has over 900 component securities designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. Based on EFA's share price of \$69.16 and MXEA's index level of 1,986.15, approximately 29 contracts of EFA equals one contract of MXEA. MXEA is currently subject to the standard position limit of 25,000 contracts for broad-based index options. Based on the above comparison of notional values, this would result in a position limit economically equivalent to 721,000 contracts for EFA as MXEA's analogue. Furthermore, MXEA currently has a market capitalization of \$18.7 trillion and EFA has a market capitalization of \$78,870.3 million, and the component securities of MXEA, in aggregate, have traded an average of 4.6 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the EEM. However, MXEA has an average daily trading volume of 270 contracts. EFA is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 98,844 contracts. Based on the above comparisons, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on the EFA from 250,000 to 500,000 contracts.

FXI

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks. There is currently no index analogue for FXI approved for options trading. However, the FTSE China 50 Index currently has a market capitalization of \$1.7 trillion and FXI has a market capitalization of \$2,623.18 million, both large enough to absorb any price movement caused by a large trade in FXI. The components of the FTSE China 50 Index, in aggregate, have an average daily trading volume of 2.3 billion shares. FXI is currently subject to

a position limit of 250,000 contracts but has a much higher average daily trading volume of 15.08 million shares. Based on the above comparisons, CBOE believed, and that Exchange agrees, that it is reasonable to increase the position limit for options on the FXI from 250,000 to 500,000 contracts.

EWZ

EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil. There is currently no index analogue for EWZ approved for options trading. However, the MSCI Brazil 25/50 Index currently has a market capitalization of \$700 billion and EWZ has a market capitalization of \$6,023.4 million, both large enough to absorb any price movement caused by a large trade in EWZ. The components of the MSCI Brazil 25/50 Index, in aggregate, have an average daily trading volume of 285 million shares. EWZ is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 17.08 million shares. Based on the above comparisons, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on the EWZ from 250,000 to 500,000 contracts.

TLT

TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds. There is currently no index analogue for TLT approved for options trading. However, the U.S. Treasury market is one of the largest and most liquid markets in the world, with over \$14 trillion outstanding and turnover of approximately \$500 billion per day. TLT currently has a market capitalization of \$7,442.4 million, both large enough to absorb any price movement caused by a large trade in TLT. Therefore, the potential for manipulation will not increase solely due to the increase in position limits as set forth in the

proposed rule change. Based on the above comparisons, CBOE believed and the Exchange agrees it is reasonable to increase the position limit for options on the TLT from 250,000 to 500,000 contracts.

EWJ

EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan. There is currently no index analogue for EWJ approved for options trading. However, the MSCI Japan Index has a market capitalization of \$3.5 trillion and EWJ has a market capitalization of \$16,625.1 million, and the component securities of the MSCI Japan Index, in aggregate, have traded an average of 1.1 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in EWJ. EWJ is currently subject to a position limit of 250,000 contracts and has an average daily trading volume of 6.6 million shares. Based on the above comparisons, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on EWJ from 250,000 to 500,000 contracts.

ISE Analysis and Conclusions

ISE has reviewed the CBOE analysis set forth above. On the basis of that analysis ISE believes that market participants' trading activity could be adversely impacted by the current position limits for FXI, EFA, EWZ, TLT and EWJ and such limits may cause options trading in these symbols to move from exchanges to the over-the-counter market. The above trading characteristics of FXI, EFA, EWZ, TLT and EWJ are either similar to those of EEM and IWM or sufficiently active so that the proposed limit would continue to address potential manipulation that may arise. Specifically, EFA has far more shares outstanding and a larger fund market cap than EEM, IWM, and QQQQ. EWJ has more shares outstanding than IWM and only slightly fewer shares outstanding than QQQQ.

On the other hand, while FXI, EWZ and TLT do not exceed EEM, IWM or QQQQ in any of the specified areas, they are all actively trading so that market participants' trading activity has been impacted by them being restricted by the current position limits. The Exchange believes that the trading activity and these securities being based on a broad basket of underlying securities alleviates concerns as to any potential manipulative activity that may arise. In addition, as discussed in more detail below, the Exchange's existing surveillance procedures and reporting requirements at the Exchange, at other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity.

On the basis of CBOE's analysis ISE also believes that market participants' trading activity could be adversely impacted by the current position limits for EEM, IWM and QQQQ. As discussed above, EEM, IWM and QQQQ have similar trading characteristics. Subjecting EEM and IWM to the proposed higher position limit would continue be designed to address potential manipulate schemes that may arise from trading in the options and their underlying securities. The trading characteristics for QQQQ described above, when compared to EEM and IWM, also justify increasing the position limit for QQQQ. QQQQ has a higher options ADV than EEM and IWM, a higher numbers of shares outstanding than IWM and a much higher market cap than EEM and IWM which justify doubling the positon limit for QQQQ. Based on these statistics, the proposed position limit coupled with QQQQ's trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in its underlying the options.

The Exchange believes that increasing the position limits for the options subject to this proposal would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in this product. Under the proposal, the reporting

requirement for the above options would be unchanged. Thus, the Exchange would still require that each Member file with the Exchange the name, address and social security or tax identification number of any customer, as well as any Member, any general or special partner of the Member, any officer or director of the Member or any participant, as such, in any joint, group or syndicate account with the Member or with any partner, officer or director thereof, who, on the previous business day held aggregate long or short positions of 200 or more options contracts of any single class of options traded on the Exchange. The report is also required to indicate for each such class of options contracts the number of options contracts comprising each such position and, in case of short positions, whether covered or uncovered. Additionally, Electronic Access Members that maintain an end of day position in excess of 10,000 non-FLEX equity options contracts on the same side of the market on behalf of its own account or for the account of a customer, are required to report whether such position is hedged and provide documentation as to how such position is hedged. This report is required at the time the subject account exceeds the 10,000 contract threshold and thereafter, for customer accounts, when the position increases by 2,500 contracts and for proprietary accounts when the position increases by 5,000 contracts. Finally, Members are also required to report promptly to the Exchange any instance in which the Member has reason to believe that a person included in Rule 415(a), acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to Rule 412.²⁴

The Exchange believes that the existing surveillance procedures and reporting requirements at the Exchange, other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity. In addition, routine

²⁴ See Exchange Rule 415 for reporting requirements.

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.²⁵

Furthermore, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.²⁶ The positions for options subject to this proposal are part of any reportable positions and, thus, cannot be legally hidden. Moreover, the Exchange's requirement that Members file reports with the Exchange for any customer who held aggregate large long or short positions of any single class for the previous day will continue to serve as an important part of the Exchange's surveillance efforts.

The Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns that a member organization or its customer may try to maintain an inordinately large un-hedged position in the options subject to this proposal. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin and/or capital that a member organization must maintain for a large position held by itself or by its customer.²⁷ In addition,

²⁵ These procedures have been effective for the surveillance of trading the options subject to this proposal and will continue to be employed.

²⁶ 17 CFR 240.13d-1.

²⁷ See Exchange Rule 1202(a), which provides that a Member must elect to be bound by the initial and maintenance margin requirements of either the CBOE or the New York Stock Exchange as the same may be in effect from time to time.

Rule 15c3-1²⁸ imposes a capital charge on member organizations to the extent of any margin deficiency resulting from the higher margin requirement.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,²⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,³⁰ in particular, in that it is designed to promote just and equitable principles of trade, 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. As noted above, the Commission has recently approved increasing position limits to the levels proposed herein on the same ETF options on the CBOE. The Exchange believes that the proposed position limits would continue to address potential manipulative activity while allowing for potential hedging activity for appropriate economic purposes.

The current position limits for the options subject to this proposal have inhibited the ability of market makers to make markets on the Exchange. Specifically, the proposal is designed to encourage market makers to shift liquidity from over the counter markets onto the Exchange, which will enhance the process of price discovery conducted on the Exchange through increased order flow. The proposal will also benefit institutional investors as well as retail traders, and public customers, by providing them with a more effective trading and hedging vehicle. In addition, the Exchange believes that the structure of the ETFs subject to this proposal and the considerable liquidity of the market for options on those ETFs diminishes the

²⁸ 17 CFR 240.15c3-1.

²⁹ 15 U.S.C. 78f(b).

³⁰ 15 U.S.C. 78f(b)(5).

opportunity to manipulate this product and disrupt the underlying market that a lower position limit may protect against.

Increased position limits for select actively traded options, such as that proposed herein, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved, on a pilot basis, eliminating position limits for certain options.³¹ Additionally, the Commission has approved similar proposed rule changes to increase position limits for options on highly liquid, actively-traded ETFs,³² including a proposal to permanently eliminate the position and exercise limits for options overlaying the S&P 500 Index, S&P 100 Index, Dow Jones Industrial Average, Nasdaq 100 Index, and the Russell 2000(R) Index ("RUT").³³ In approving the permanent elimination of position and exercise limits for these index options, the Commission relied heavily upon the Exchange's surveillance capabilities, and the Commission expressed trust in the enhanced surveillance and reporting safeguards that the Exchange took in order to detect and deter possible manipulative behavior

³¹ See Securities Exchange Act Release Nos. 67672 (August 15, 2012), 77 FR 50750 (August 22, 2012)(SR-NYSEAmex-2012-29); 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091).

³² See Securities Exchange Act Release Nos. 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012)(SR-CBOE-2012-066); 64928 (July 20, 2011), 76 FR 44633 (July 26, 2011) (SR-CBOE-2011-065); 64695 (June 17, 2011), 76 FR 36942 (June 23, 2011) (SR-PHLX-2011-58); and 55176 (January 25, 2007), 72 FR 4741 (February 1, 2007) (SR-CBOE- 2007-008.).

³³ See Securities Exchange Act Release Nos. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (SR-CBOE-2001-22) (elimination of position and exercise limits on SPX, OEX, and DJX options) ("SPX, OEX, and DJX Position Limit Elimination Approval Order"); 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (SR-CBOE-2005-41) (elimination of position and exercise limits on NDX options) ("NDX Position Limit Elimination Approval Order"); 56651 (October 12, 2007), 72 FR 59130 (October 18, 2007) (SR-Phlx-2007-71) ("RUT Position Limit Elimination Approval Order").

which might arise from eliminating position and exercise limits.³⁴ Furthermore, as described more fully above, options on other ETFs have the position limits proposed herein and those ETFs have trading characteristics and trading volumes that are similar to those of the ETFs subject to this proposed rule change.

Last, the Commission has expressed the belief that removing position and exercise limits may bring additional depth and liquidity without increasing concerns regarding intermarket manipulation or disruption of the options or the underlying securities.³⁵ The Exchange's enhanced surveillance and reporting safeguards continue to be designed to deter and detect possible manipulative behavior which might arise from eliminating position and exercise limits.

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. On the contrary, the Exchange believes that the proposed rule change will result in additional 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.

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition;

³⁴ Id.

³⁵ Id.

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)(iii) of the Act³⁶ and subparagraph (f)(6) of Rule 19b-4 thereunder.³⁷

A proposed rule change filed under Rule 19b-4(f)(6)³⁸ normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)³⁹ permits the Commission to 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 proposed rule change may become effective and operative immediately upon filing. The Exchange states that waiver of the operative delay would permit the Exchange to immediately implement the proposed rule change to increase the position limits as proposed herein and thereby seamlessly continue to offer traders and the investing public the ability to use these products as effective hedging and trading vehicles. The Exchange further states that waiver would allow the Exchange to remain competitive with other exchanges. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the 30-day operative delay and designates the proposed rule change as operative upon filing.⁴⁰

³⁶ 15 U.S.C. 78s(b)(3)(A)(iii).

³⁷ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give 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 date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

³⁸ 17 CFR 240.19b-4(f)(6).

³⁹ 17 CFR 240.19b-4(f)(6)(iii).

⁴⁰ 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).

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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-ISE-2018-39 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-ISE-2018-39. 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-ISE-2018-39 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.⁴¹

Eduardo A. Aleman
Assistant Secretary

⁴¹ 17 CFR 200.30-3(a)(12).

[FR Doc. 2018-09696 Filed: 5/7/2018 8:45 am; Publication Date: 5/8/2018]