



8011-01  
SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84449; File No. SR-Phlx-2018-64)

October 18, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Section (a)(i)(D) of Rule 1012

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 17, 2018, Nasdaq PHLX LLC (“Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III, 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 Section (a)(i)(D) of Rule 1012, Series of Options Open for Trading, to permit the listing and trading of up to ten expiration months for long term options on the SPDR® S&P 500® exchange-traded fund (the "SPY ETF").

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqphlx.cchwallstreet.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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the

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

<sup>2</sup> 17 CFR 240.19b-4.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

Section (a)(i)(D) of Rule 1012 currently provides that the Exchange may list, with respect to any class of stock or Exchange-Traded Fund Share options series, options having from twelve up to thirty-nine months from the time they are listed ("LEAPS") until expiration. There may be up to six expiration months.<sup>3</sup> The Exchange proposes to amend Section (a)(i)(D) of Rule 1012 to permit up to ten LEAPS expiration months for options on the SPDR® S&P 500® exchange-traded fund ("SPY") in response to customer demand.<sup>4</sup> The proposal will add liquidity to the SPY options market by allowing market participants to hedge risks relating to SPY positions over a longer time period with a known and limited cost.

The SPY options market today is characterized by its tremendous daily and annual liquidity. As a consequence the Exchange believes that the listing of additional SPY LEAPS expiration months would be well received by investors. This proposal to expand the number of

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<sup>3</sup> Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.

<sup>4</sup> In contrast to Section (a)(i)(D) of Rule 1012, Exchange Rule 1101A(b)(iii) which applies to index options permits to the Exchange to list LEAPS on any class of stock index options, adding up to ten expiration months. The Exchange seeks to list ten expiration months of LEAPS on the SPY ETF, just as it now may list ten LEAPS expiration months on index options, in order to provide investors with a wider choice of investments.

permitted SPY long-term expiration months would not apply to LEAPS on any other class of stock or Exchange-Traded Fund Share.<sup>5</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>7</sup> 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, by offering market participants additional LEAPS on SPY options for their investment and risk management purposes. The proposal is intended simply to provide additional trading opportunities which have been requested by customers, thereby facilitating transactions in options and contributing to the protection of investors and the maintenance of fair and orderly markets. The proposed rule change responds to the continuing needs of market participants, particularly portfolio managers and other institutional customers, by providing protection from long-term market moves and by offering an alternative to hedging portfolios with futures positions or off-exchange customized derivative instruments.

Rule 1012 has permitted up to six expiration months in LEAPS since 1991, when the Exchange increased the number of permissible expiration months from four to six. In approving the increase to six expiration months, the Commission stated that it did not believe that increasing the number of expiration months to six would cause, by itself, a proliferation of expiration months. The Commission also required that the Exchange monitor the volume of

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<sup>5</sup> Historically, SPY is the largest and most actively traded ETF in the United States as measured by its assets under management and the value of shares traded.

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

additional options series listed as a result of the rule change, and the effect on the Exchange's system capacity and quotation dissemination displays.<sup>8</sup> The Exchange believes that the addition today of four additional expiration months for SPY LEAPS likewise does not represent a proliferation of expiration months, but is instead a very modest expansion of LEAPS options in response to stated customer demand. Significantly, the proposal would feature new LEAPS expiration months in only a single class of options that are very liquid and heavily traded, as discussed above. Additionally, the Exchange notes by way of precedent that ten expiration months are already permitted for stock index LEAPS options. Further, the Exchange has the necessary systems capacity to support the new SPY expiration months.

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. The proposal merely provides investors additional investment and risk management opportunities by providing flexibility to the Exchange to list additional long term options expiration series, expanding the number of SPY LEAPS offered on the Exchange from six expiration months to ten expiration months.

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;

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<sup>8</sup> See Securities Exchange Act Release No. 29103 (April 18, 1991), 56 FR 19132 (April 25, 1991) (approving SR-Phlx-91-18).

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 Act<sup>9</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>10</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 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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2018-64 on the subject line.

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>10</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give 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 Exchange has satisfied this requirement.

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-Phlx-2018-64. 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-Phlx-2018-64, 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>11</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).

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