



8011-01P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84588; File No. SR-NASDAQ-2018-088]

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Chapter IV, Securities Traded on NOM, Section 8, Long-Term Options Contracts

November 14, 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 November 7, 2018, The Nasdaq Stock Market LLC (“Nasdaq” or “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 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 Chapter IV, Securities Traded on NOM, Section 8, Long-Term Options Contracts.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaq.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 proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange proposes to amend its rules at Chapter IV, Securities Traded on NOM, Section 8, Long-Term Options Contracts, in order (i) to clarify the number of long-term option contract ("LEAPS") expiration months that may be listed on the Exchange on underlying securities under the current rule, and (ii) to expand the number of LEAPS expiration months that may be listed in options on the SPDR® S&P 500® exchange-traded fund (the "SPY ETF") in particular.

Clarification of the Number of Permitted Expiration Months

Pursuant to current Chapter IV, Section 8, the Exchange may list LEAPS that expire from twelve (12) to thirty-nine (39) months from the time they are listed. The rule provides that there may be up to six (6) additional expiration months. Because the rule does not specify which expiration months the six months are in addition to, and thus is ambiguous, the Exchange proposes to delete the word "additional." As amended, the rule would clearly and simply provide that the Exchange may list six expiration months having from twelve up to thirty-nine months from the time they are listed until expiration. This aspect of the proposed rule change is based upon Nasdaq PHLX, LLC ("Phlx") Rule 1012, Series of Options Open for Trading, subsection (a)(i)(D).³

Additional Expiration Months in SPY ETF LEAPS

³ See Securities Exchange Act Release No. 80769 (May 25, 2017), 82 FR 25472 (June 1, 2017) (SR-Phlx-2017-41).

The Exchange proposes to further amend Chapter IV, Section 8, to permit up to ten LEAPS expiration months for options on the SPY ETF in response to customer demand.⁴ The proposal will add liquidity to the SPY ETF options market by allowing market participants to hedge risks relating to SPY ETF option positions over a longer time period with a known and limited cost. This aspect of the proposed rule change is also based upon Phlx Rule 1012, Series of Options Open for Trading, subsection (a)(i)(D), as recently amended.⁵

The SPY ETF options market today is characterized by its tremendous daily and annual liquidity. As a consequence the Exchange believes that the listing of additional SPY ETF LEAPS expiration months would be well received by investors. This proposal to expand the number of permitted SPY ETF LEAPS expiration months would not apply to LEAPS on any other security.⁶

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁸ 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. First, as noted above, the proposal protects investors and the

⁴ Chapter XIV, Index Rules, Section 11, Terms of Index Options Contracts, subsection (b)(1)(i) currently permits the Exchange to list up to ten (10) expiration months in long term index options.

⁵ See Securities Exchange Act Release No. 84449 (October 18, 2018), 83 FR 53699 (October 24, 2018) (SR-Phlx-2018-64).

⁶ Historically, SPY ETF 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.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

public interest by clarifying ambiguous rule language associated with permitted listings of long term options. Second, the proposal would permit the Exchange to offer market participants additional LEAPS on SPY ETF options for their investment and risk management purposes. This aspect of 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. The Exchange believes that the addition today of four additional expiration months for SPY ETF LEAPS does not represent a proliferation of expiration months, but is instead a very modest expansion of LEAPS 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. Further, the Exchange has the necessary systems capacity to support the [sic]

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 amendment will benefit investors, market participants, and the marketplace in general by eliminating ambiguity in the current rules regarding the number of permitted expiration months in LEAPS generally. Additionally, the proposal merely provides investors additional investment and risk management opportunities by

providing flexibility to the Exchange to list additional LEAPS expiration series, expanding the number of SPY ETF 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; 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 Act⁹ and Rule 19b-4(f)(6) thereunder.¹⁰

A proposed rule change filed under Rule 19b-4(f)(6)¹¹ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹² 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 on November 16, 2018, to coincide with the effective date of Phlx's proposed rule change on which the proposal is

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4. 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.

¹¹ 17 CFR 240.19b-4(f)(6).

¹² 17 CFR 240.19b-4(f)(6)(iii).

partially based.¹³ The Exchange's proposal would clarify ambiguous rule text and would conform the Exchange's rules relating to permitted number of SPY ETF LEAPS expirations to those of Phlx. Accordingly, the Commission believes that the proposal raises no new or novel regulatory issues and waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. The Commission therefore waives the 30-day operative delay and designates the proposal operative on November 16, 2018.¹⁴

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.

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-NASDAQ-2018-088 on the subject line.

¹³ See supra note 5.

¹⁴ 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).

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-NASDAQ-2018-088. 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-NASDAQ-2018-088 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.¹⁵

Eduardo A. Aleman,
Assistant Secretary.

¹⁵ 17 CFR 200.30-3(a)(12).

[FR Doc. 2018-25244 Filed: 11/19/2018 8:45 am; Publication Date: 11/20/2018]