

Regulatory Notice

13-20

Options

FINRA Designates Additional Index Available for Conventional Equity Options Position Limits Calculation

Effective Date: June 27, 2013

Executive Summary

Firms may calculate option position limits in accordance with volume and float criteria specified by FINRA for conventional equity options overlying securities that are part of an index designated by FINRA and submit a post-trade notice filing to FINRA. FINRA previously designated the FTSE All-World Index. Effective June 27, 2013, FINRA is designating the NASDAQ Global Large Mid Cap Index to permit firms to use the volume and float criteria to calculate position limits for conventional equity options on securities in that index.

Questions concerning this *Notice* should be directed to:

- ▶ Max Tourtelot, Director, Options Regulation, at (917) 281-3133;
- ▶ James Turnbull, Associate Director, Options Regulation, at (917) 281-3177; or
- ▶ Kathryn Moore, Associate General Counsel, Office of General Counsel, at (202) 974-2974.

Background & Discussion

FINRA Rule 2360(b)(3)(A) imposes a ceiling or position limit on the number of conventional and standardized equity options contracts in each class on the same side of the market (*i.e.*, aggregating long calls and short puts, or long puts and short calls) that can be held or written by a firm, a person associated with a firm, a customer or a group of customers acting in concert.

In general, position limits for conventional equity options are the same as the limits for standardized equity options that overlie the same security.¹ However, because many foreign securities do not have standardized equity options overlying them, conventional equity options overlying foreign securities generally fall into the base tier of 25,000 contracts. Firms may apply to FINRA Market Regulation Department to obtain higher position limits based on the volume and float of the underlying security.

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Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Compliance
- ▶ Institutional
- ▶ Legal
- ▶ Operations
- ▶ Options
- ▶ Senior Management
- ▶ Systems
- ▶ Trading

Key Topics

- ▶ Conventional Equity Options
- ▶ Position Limits

Referenced Rules & Notices

- ▶ Notice to Members 07-03
- ▶ FINRA Rule 2360



Financial Industry Regulatory Authority

FINRA Rule 2360(b)(3)(A)(viii)b allows firms to calculate on their own the position limits for conventional equity options overlying certain securities that are part of an index designated by FINRA. In [Notice to Members 07-03](#), FINRA previously designated the FTSE All-World Index Series. As a result, firms may calculate position limits for options on those securities that are part of that index, using the same volume and float criteria as used by the options exchanges,² and must submit a post-trade notice filing within one business day to FINRA.

NTM 07-03 also noted that in the event that FINRA designates another index in addition to or instead of the FTSE All-World Index Series, FINRA would publish the designation in a *Notice* and provide firms at least 30 days written notice of the change.³ Effective June 27, 2013, FINRA designates the NASDAQ Global Large Mid Cap Index to serve as an additional index for purposes of calculating position limits on conventional equity options overlying foreign securities, subject to the volume and float criteria noted above. FINRA believes the designation of this additional index is consistent with the designation of the FTSE All-World Index in that the indexes are of similar geographic dispersion and composition including market capitalization sectors of large and mid-cap companies. The NASDAQ Global Large Mid Cap Index is a free-float adjusted market capitalization weighted index designed to include 90 percent of the investable public equity in certain developed and emerging countries, subject to a semi-annual rebalancing schedule.

FINRA reminds firms that under the rule, if claiming a higher position limit, a firm must submit a post-trade notice filing within one business day to FINRA. The firm must submit the filing by email to the Market Regulation Department, at plhedge@finra.org, and must provide the necessary trade data or current float data to support the firm's position limit calculation as provided on the [Increase Option Position Limit Notification Form](#). FINRA will review the firm's notice filing, and, if it determines that the firm incorrectly assigned a position limit, it will notify the firm and instruct it to promptly reduce its position to the appropriate limits as determined by FINRA.

Endnotes

1. In general, position limits for standardized equity options are determined according to a five-tiered system in which more actively traded stocks with larger public floats are subject to higher position limits. FINRA rules do not specifically govern how a particular equity option falls within one of the tiers. Rather, the position-limit rule provides that the position limit established by the rules of an options exchange for a particular equity option is the applicable position limit for purposes of the FINRA rule. *See e.g.*, Chicago Board Options Exchange Rule 4.11, Interpretations and Policies .02; NYSE MKT Rule 904, Commentary .07; NASDAQ OMX PHLX Rule 1001, Commentary 05; NYSE Arca Options Rule 6.8, Commentary 06; and International Securities Exchange Rule 412(d). However, the position limits for standardized and conventional options overlying specified exchange-traded funds are established in FINRA Rule 2360, Supplemental Material .03.
2. *See e.g.*, Chicago Board Options Exchange Rule 4.11, Interpretations and Policies .02; NYSE MKT Rule 904, Commentary .07; NASDAQ OMX PHLX Rule 1001, Commentary 05; NYSE Arca Options Rule 6.8, Commentary 06; and International Securities Exchange Rule 412(d).

Options Position Limit	Criteria (each as measured during the most recent six-month period)
50,000	Trading volume of 20,000,000 shares; or Trading volume of 15,000,000 shares, and 40,000,000 shares currently outstanding.
75,000	Trading volume of 40,000,000 shares; or Trading volume of 30,000,000 shares, and 120,000,000 shares currently outstanding.
200,000	Trading volume of 80,000,000 shares; or Trading volume of 60,000,000 shares, and 240,000,000 shares currently outstanding.
250,000	Trading volume of 100,000,000 shares; or Trading volume of 75,000,000 shares, and 300,000,000 shares currently outstanding.

3. *See* Securities Exchange Act Release No. 54755 (November 15, 2006), 71 FR 67675, 67677 n.23 (November 22, 2006) (SEC Approval Order of File No. SR-NASD-2006-007) and *NTM 07-03*.