OMB APPROVAL

OMB Number: 3235-0045
Estimated average burden
hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 034
Amendment No. (req. for Amendments *)

Filing by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☐	☑	☐

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Immediate Effectiveness of a Proposed Rule Change to Amend Rule 2360 (Options) to Increase Position Limits on Options on Certain Exchange-Traded Funds

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Kathryn Last Name * Moore
Title * Associate General Counsel
E-mail * kathryn.moore@finra.org
Telephone * (202) 728-8200 Fax (202) 728-8264

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 08/31/2018
By Stephanie Dumont
(Name *)

(Title *)
Senior Vice President and Director of Capital Markets Policy

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Stephanie Dumont,

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] Financial Industry Regulatory Authority, Inc. ("FINRA") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to amend FINRA Rule 2360 (Options) to increase the position limit for conventional options on the following exchange-traded funds ("ETF"): Standard and Poor's Depositary Receipts Trust ("SPY"), iShares Russell 2000 ETF ("IWM"), PowerShares QQQ Trust ("QQQ"), iShares MSCI Emerging Markets ETF ("EEM"), iShares China Large-Cap ETF ("FXI"), iShares MSCI EAFE ETF ("EFA"), iShares MSCI Brazil Capped ETF ("EWZ"), iShares 20+ Year Treasury Bond Fund ETF ("TLT"), and iShares MSCI Japan ETF ("EWJ").

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

2360. Options

(a) No Change.

(b) Requirements

(1) through (2) No Change.

(3) Position Limits

(A) Stock Options —

(i) through (ii) No Change.

(iii) Conventional Equity Options

[1] 15 U.S.C. 78s(b)(1).

a. For purposes of this paragraph (b), standardized equity option contracts of the put class and call class on the same side of the market overlying the same security shall not be aggregated with conventional equity option contracts or FLEX Equity Option contracts overlying the same security on the same side of the market. Conventional equity option contracts of the put class and call class on the same side of the market overlying the same security shall be subject to a position limit of:

1. through 5. No Change.

6. for selected conventional options on exchange-traded funds ("ETF"), the position limits are listed in the chart below:

Security Underlying Option	**Position Limit**
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depositary Receipts Trust (SPY)	[900,000]1,800,000 contracts
The iShares Russell 2000 [Index Fund]ETF (IWM)	[500,000]1,000,000 contracts
The PowerShares QQQ Trust (QQQ[Q])	[900,000]1,800,000 contracts
The iShares MSCI Emerging Markets [Index Fund]ETF (EEM)	[500,000]1,000,000 contracts
iShares China Large-Cap ETF (FXI)	500,000 contracts
iShares MSCI EAFE ETF (EFA)	500,000 contracts
iShares MSCI Brazil Capped ETF (EWZ)	500,000 contracts
iShares 20+ Year Treasury Bond Fund ETF (TLT)	500,000 contracts
iShares MSCI Japan ETF (EWJ)	500,000 contracts

b. No Change.

(B) through (D) No Change.

(4) through (24) No Change.

(c) No Change.

• • • Supplementary Material: --------------

.01 through .03 No Change.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The Chief Legal Officer of FINRA authorized the filing of the proposed rule change with the SEC pursuant to delegated authority. No other action by FINRA is necessary for the filing of the proposed rule change. FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so FINRA can implement the proposed rule change immediately.

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

(a) Purpose

FINRA Rule 2360(b)(3)(A) imposes a position limit on the number of equity options contracts in each class on the same side of the market that can be held or written by a member, a person associated with a member, or a customer or a group of customers acting in concert. Position limits are intended to prevent the establishment of options positions that can be used to manipulate or disrupt the underlying market or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In addition, position limits serve to reduce the potential for disruption of the options market itself, especially in illiquid options classes.[2] This consideration has been balanced by the concern that the limits "not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market."[3]

Rule 2360(b)(3)(A)(i) does not independently establish a position limit for standardized equity options. Rather, the position limit established by the rules of an options exchange for a particular equity option is the applicable position limit for purposes of Rule 2360.[4] Rule 2360(b)(3)(A)(iii) provides that conventional equity options are subject to a basic position limit of 25,000 contracts or a higher tier for conventional option contracts on securities that underlie exchange-traded options qualifying for such higher tier as determined by the rules of the options exchanges. In addition, FINRA lists position limits for options on securities that have higher position limits – currently, only the ETFs listed in Rule 2360(b)(3)(A)(iii)a.6. – that also generally mirror the options exchange position limits.[5] At this time, FINRA proposes to conform

---

[2] See Securities Exchange Act Release No. 40969 (January 22, 1999), 64 FR 4911, 4912-4913 (February 1, 1999) (Order Approving File No. SR-CBOE-98-23) (citing H.R. No. IFC-3, 96th Cong., 1st Sess. at 189-91 (Comm. Print 1978)).

[3] Id. at 4913.

[4] See e.g., CBOE Rule 4.11; ISE Rule 412; NASDAQ PHLX Rule 1001; NYSE American Rule 904; NYSE Arca Rule 6.8; MIAX Rule 307; BOX Rule 3120 and IM-3120-2; Nasdaq Chapter III, Section 7; BX Chapter III, Section 7; and BZX Rule 18.7.

[5] The options exchanges have recently revised the position limit on SPY options to 1,800,000 contracts after expiration of a pilot program on July 12, 2018 that eliminated position limits on SPY options. FINRA retained its position for

to the options exchanges' recent amendments that increased (or in the case of SPY decreased from the pilot program) the position limit options on the following ETFs: SPY, IWM, QQQ, EEM, FXI, EFA, EWZ, TLT and EWJ.[6]

The proposed rule change would amend the table provided in Rule 2360(b)(3)(A)(iii)a.6. as follows:

---

conventional options on SPY at 900,000 contracts. The proposed rule change proposes to increase the position limit on SPY to 1,800,000 consistent with the options exchanges updating the position limit on SPY to 1,800,000 contracts. See Securities Exchange Act Release No. 83349 (May 30, 2018), 83 FR 26123 (June 5, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-MIAX-2018-11). See also Securities Exchange Act Release No. 83412 (June 12, 2018), 83 FR 28298 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-PHLX-2018-44); Securities Exchange Act Release No. 83414 (June 12, 2018), 83 FR 28296 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-BOX-2018-22); Securities Exchange Act Release No. 83415 (June 12, 2018), 83 FR 28274 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-CBOE-2018-042); Securities Exchange Act Release No. 83413 (June 12, 2018), 83 FR 28277 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEArca-2018-44); and Securities Exchange Act Release No. 83417 (June 12, 2018), 83 FR 28279 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEAMER-2018-26).

6 See note 5 for discussion regarding position limits for options on SPY. See also Securities Exchange Act Release No. 82770 (February 23, 2018), 83 FR 8907 (March 1, 2018) (Order Granting Accelerated Approval of File No. SR-CBOE-2017-057). See also Securities Exchange Act Release No. 82931 (March 22, 2018), 83 FR 13323 (March 28, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-MIAX-2018-10); Securities Exchange Act Release No. 82930 (March 22, 2018), 83 FR 13330 (March 28, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-BOX-2018-10); Securities Exchange Act Release No. 82932 (March 22, 2018), 83 FR 13316 (March 28, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-PHLX-2018-24); Securities Exchange Act Release No. 83066 (April 19, 2018), 83 FR 18099 (April 25, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEArca-2018-23) and Securities Exchange Act Release No. 83065 (April 19, 2018), 83 FR 18093 (April 25, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEAMER-2018-14).

- The position limits for options on SPY would be increased from 900,000 contracts to 1,800,000 contracts;
- The position limit for options on IWM would be increased from 500,000 contracts to 1,000,000 contracts;
- The position limit for options on QQQ would be increased from 900,000 contracts to 1,800,000 contracts; and
- The position limit for options on EEM would be increased from 500,000 contracts to 1,000,000 contracts.

In addition, the proposed rule change would add to the table provided in Rule 2360(b)(3)(A)(iii)a.6. as follows, with the effect of each ETF being increased from the current position limit of 250,000 contracts:

- The position limit for options on FXI would be increased to 500,000 contracts;
- The position limit for options on EFA would be increased to 500,000 contracts;
- The position limit for options on EWZ would be increased to 500,000 contracts;
- The position limit for options on TLT would be increased to 500,000 contracts; and
- The position limit for options on EWJ would be increased to 500,000 contracts.[7]

In support of the proposed rule change, as noted by Cboe, position limits are determined by the option exchange's requirements according to the number of outstanding shares and the trading volume of the underlying ETF over the past six

---

7 The proposed rule filing would also make certain wording changes to the listing of the names of the ETFs and change in two places "Index Fund" to "ETF". The proposed rule filing would also revise the symbol of The PowerShares QQQ Trust to "QQQ."

months.[8] 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. The above listed ETFs are listed on various national securities exchanges and meet their listing standards.

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks.[9] EEM tracks the performance of the MSCI Emerging Markets Index, which is composed of approximately 800 component securities from emerging market countries from all over the world.[10] IWM tracks the performance of the Russell 2000 Index, which is composed of 2,000 small-cap domestic stocks.[11] EFA tracks the performance of MSCI EAFE Index, which has over 900 component securities.[12] The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australia and the Far East, excluding the U.S. and Canada.[13] EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil.[14] TLT tracks the performance of ICE U.S. Treasury 20+

---

8 See for example, Cboe Rule 4.11 Interpretations and Policies:.02.

9 See https://www.ishares.com/us/products/239536/ishares-china-largecap-etf.

10 See https://www.ishares.com/us/products/239637/ishares-msci-emerging-markets-etf.

11 See https://www.ishares.com/us/products/239710/ishares-russell-2000-etf.

12 See https://www.ishares.com/us/products/239623/.

13 See https://www.msci.com/eafe.

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

Year Bond Index, which is composed of long-term U.S. Treasury bonds.[15] QQQ tracks the performance of the Nasdaq-100 Index, which is composed of 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market LLC ("Nasdaq").[16] EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan.[17] SPY tracks the performance of the S&P 500® Index, which is an index of diversified large cap U.S. companies.[18]

In support of this proposal, all trading and other statistics, except SPY which were compiled by FINRA, have been compiled by Cboe as of the dates provided by Cboe and provided in its proposed rule change to increase the applicable positions limits:[19]

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
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	$7,442.4
QQQ	26.25	579,404	351.6	$50,359.7

15 See https://www.ishares.com/us/products/239454/.

16 See https://indexes.nasdaqomx.com/Index/Overview/NDX.

17 See https://www.ishares.com/us/products/239665/EWJ.

18 See https://us.spdrs.com/en/etf/spdr-sp-500-etf-SPY.

19 See note 6.

EWJ	6.06	4,715	303.6	$16,625.1
SPY	64.63	2,575,153	976.23	$240,540.0

FINRA agrees as proposed by Cboe that the liquidity in the underlying ETFs, and the liquidity in the ETF options support its request to increase the position limits for the options subject to the proposed rule change. As to the underlying ETF shares, the average daily trading volume across all exchanges for the period of January 1 to July 31, 2017 was: (i) FXI- 15.08 million shares; (ii) EEM- 52.12 million shares; (iii) IWM- 27.46 million shares; (iv) EFA- 19.42 million shares; (v) EWZ- 17.08 million shares; (vi) TLT- 8.53 million shares; (vii) QQQ- 26.25 million shares; (vii) EWJ- 6.06 million shares; and (viii) SPY- 64.63 million shares.

In proposing the increased position limits, FINRA considered the availability of economically equivalent products and their respective position limits. For instance, some of the ETFs underlying options subject to this proposal are based on broad-based indices that underlie cash-settled options that are economically equivalent to the ETF options that are the subject of this proposal and have no position limits (NDX and SPX). 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 and EFA). Where there was no approved index analogue, FINRA believes, 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 (example FXI and EWJ).[20] FINRA believes that if certain position limits are appropriate for the options

---

20 FINRA Rule 2360(b)(3)(B) establishes position limits for index options by incorporating by reference the position limit established by the options exchange on which the option trades. Options exchanges establish rules for index options

overlying the same index, or 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, 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 issuer may look to the stocks comprising the analogous underlying index or reference asset when seeking to create additional ETF shares which are part of the creation/redemption process to address supply and demand or to mitigate the price movement of the price of the ETF.

For example, the PowerShares QQQ Trust or QQQ 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 the Nasdaq Stock Market LLC ("Nasdaq"). Options on NDX are currently subject to no position limits but share similar trading characteristics as QQQ. Based on QQQ's share price of $154.5422 and NDX's index level of 6,339.14, approximately 40 contracts of QQQ equals one contract of NDX. Assume that options on NDX are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000 contracts for QQQ as NDX's analogue. However, options on NDX are not subject to position limits and has an average daily trading volume of 15,300 contracts. Options on QQQ are currently subject to a position limit of 900,000 contracts but has a much higher average daily trading volume of 579,404 contracts. Furthermore, NDX currently has a market capitalization of $17.2 trillion and QQQ has a market capitalization of $50,359.7 million, and the

---

based on the characteristic of the underlying index. See, e.g., Cboe Rule 24.4 and MIAX Rule 1804.

component securities of NDX, in aggregate, have traded an average of 440 million shares per day in 2017, both market capitalizations being large enough to absorb any price movement caused by a large trade in the QQQ. The Commission has also approved no position limit for options on NDX, although it has a much lower daily trading volume than its analogue, the QQQ. Therefore, FINRA believes it is reasonable to increase the position limit for options on QQQ from 900,000 to 1,800,000 contracts.

The SPDR® S&P 500® ETF Trust or SPY seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index or SPX, which is an index composed of 500 large-cap U.S. companies. Options on the SPX have no position limits and share similar trading characteristics as SPY. Based on SPY's price of $263.15 and SPX's index level of 2640.87, approximately 10 contracts of SPY equals one contract of SPX.[21] Assume that options on SPX are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit equivalent to 250,000 contracts for options on SPY as SPX's analogue. However, options on SPX are not subject to position limits and has an average daily trading volume of 1,101,185 contracts.[22] Options on SPY were recently changed to a position limit of 1,800,000 contracts for standardized options, but is currently subject to a conventional option position limit of 900,000 contracts but has a much higher average daily trading volume of 2,575,153 contracts.[23] Furthermore, as of

---

[21] As of March 29, 2018.

[22] As of July 31, 2017.

[23] See note 5.

December 29, 2017, SPX had a market capitalization of $23.9 trillion and SPY has a market capitalization of $277.54 billion, large enough to absorb any price movement caused by a large trade in the SPY. The Commission has also approved no position limit for options on SPX, although it has a much lower daily trading volume than its analogue, the SPY, for which the exchanges recently changed the position limit to 1,800,000 contracts. Therefore, FINRA believes it is reasonable to increase the position limits for options on SPY from 900,000 to 1,800,000 contracts.

The iShares Russell 2000 ETF or IWM, is an ETF that also tracks the Russell 2000 index or RUT, which is an index composed of 2,000 small-cap domestic companies in the Russell 2000 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 options on RUT are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit equivalent to 250,000 contracts for options on IWM as RUT's analogue. However, options on RUT are not subject to position limits and has an average daily trading volume of 66,200 contracts. Options on IWM are 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 options on 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, FINRA believes it is reasonable to increase the position limit for options on IWM from 500,000 to 1,000,000 contracts.

EEM tracks the performance of the MSCI Emerging Markets Index or MXEF, which is composed of approximately 800 component securities from emerging market countries from all over the world. Below makes the same notional value comparisons as made above. 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. Assume that options on MXEF are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit economically equivalent to 604,000 contracts for options on EEM as MXEF's analogue. However, MXEF has an average daily trading volume of 180 contracts. Options on 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, FINRA believes it is reasonable to increase the position limit for options on EEM from 500,000 to 1,000,000 contracts.

EFA tracks the performance of the 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, Australia and the Far East, excluding the U.S. and Canada. Below makes the same notional value comparison as made above. 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. Assume options on MXEA are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. 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 EFA. However, MXEA has an average daily trading volume of 270 contracts. Options on 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, FINRA believes it is reasonable to increase the position limit for options on EFA from 250,000 to 500,000 contracts.

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. Options on FXI are currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 15.08 million shares. 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. Based on the above comparisons, FINRA believes it is reasonable to increase the position limit for options on FXI from 250,000 to 500,000 contracts.

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. Options on EWZ are currently subject to a position limit of 250,000 contracts but the ETF has a much higher average daily trading volume of 17.08 million shares. 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. Based on the above comparisons, FINRA believes it is reasonable to increase the position limit for options on EWZ from 250,000 to 500,000 contracts.

TLT tracks the performance of the 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, any potential for manipulation will not increase solely due to the increase in position limits as set forth in this proposal. Based on the above comparisons, FINRA believes it is reasonable to increase the position limit for options on TLT from 250,000 to 500,000 contracts.

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. Options on 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, FINRA believes it is reasonable to increase the position limit for options on EWJ from 250,000 to 500,000 contracts.

FINRA believes that increasing the position limits for the conventional options subject to the proposed rule change would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in these products.

Surveillance and Reporting

Further, FINRA believes that the increased position limits provisions are appropriate in light of the existing surveillance procedures and reporting requirements at FINRA,[24] the options exchanges, and at the several clearing firms, which are capable of properly identifying unusual or illegal trading activity. These procedures use daily

[24] See Rule 2360(b)(5) for the options reporting requirements.

monitoring of market movements by automated surveillance techniques to identify unusual activity in both options and underlying stocks.[25]

In addition, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.[26] Options positions are part of any reportable positions and cannot legally be hidden. Moreover, the previously noted Rule 2360(b)(5) requirement that members must file reports with FINRA for any customer that held aggregate large long or short positions of any single class for the previous day will continue to serve as an important part of FINRA's surveillance efforts.

Finally, FINRA believes that the current financial requirements imposed by FINRA and by the Commission adequately address financial responsibility concerns that a member or its customer will maintain an inordinately large unhedged position in any option with a higher position limit. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin or capital that a member must maintain for a large position. Under Rule 4210(f)(8)(A), FINRA also may impose a higher margin requirement upon a member when FINRA determines a higher requirement is warranted. In addition, the Commission's net capital rule[27] imposes a capital charge on members to the extent of any margin deficiency resulting from the higher margin requirement.

---

[25] These procedures have been effective for the surveillance of options trading and will continue to be employed.

[26] 17 CFR 240.13d-1.

[27] 17 CFR 240.15c3-1.

As noted in Item 2 of this filing, FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so FINRA can implement the proposed rule change immediately.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[28] which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change promotes consistent regulation by harmonizing position limits with those of the other self-regulatory organizations. FINRA further believes that increasing the position limit on conventional options promotes consistent regulation by harmonizing the position limit with its standardized counterpart. In addition, FINRA believes the proposed rule change will be beneficial to large market makers and institutions (which generally have the greatest ability to provide liquidity and depth in products that may be subject to higher position limits as has been the case with recently approved increased position limits),[29] as well as retail traders and public customers, by providing them with a more effective trading and hedging vehicle. In addition, FINRA believes that the structure of the options subject to the proposed rule change and the considerable liquidity of the market for those options diminishes the

---

28 15 U.S.C. 78o-3(b)(6).

29 See note 6.

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

Increased position limits for select actively traded options, such as those proposed herein, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved a position limit of 1,800,000 contracts on options on SPY.[30] Additionally, the Commission has approved similar proposed rule changes by the options exchanges to increase position and exercise limits for options on highly liquid, actively-traded ETFs,[31] 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, and Nasdaq 100 Index.[32] In approving the permanent

---

30 See note 5.

31 See Securities Exchange Act Release No. 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012) (Order Approving File No. SR-CBOE-2012-66); Securities Exchange Act Release No. 68478 (December 19, 2012), 77 FR 76132 (December 26, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-BOX-2012-23); Securities Exchange Act Release No. 68398 (December 11, 2012), 77 FR 74700 (December 17, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-ISE-2012-93); Securities Exchange Act Release No. 68293 (November 27, 2012), 77 FR 71644 (December 3, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-Phlx-2012-132); Securities Exchange Act Release No. 68358 (December 5, 2012), 77 FR 73708 (December 11, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSE MKT-2012-71); Securities Exchange Act Release No. 68359 (December 5, 2012), 77 FR 73716 (December 11, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSE Arca-2012-132) and Securities Exchange Act Release No. 69457 (April 25, 2013), 78 FR 25502 (May 1, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-MIAX-2013-17).

32 See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (Order Approving File No. SR-CBOE-2001-22) and Securities Exchange Act Release No. 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (Order Approving File No. SR-CBOE-2005-41) ("NDX Approval").

elimination of position and exercise limits, the Commission relied heavily upon surveillance capabilities, and the Commission expressed trust in the enhanced surveillance and reporting safeguards in order to detect and deter possible manipulative behavior, which might arise from eliminating position and exercise limits.[33] Furthermore, as described more fully above, options on other ETFs have the position limits proposed herein, but their trading volumes are significantly lower than the ETFs subject to the proposed rule change.

Furthermore, the proposed position limits would continue to address potential manipulative activity while allowing for potential hedging activity for appropriate economic purposes. The creation and redemption process for these ETFs also lessens the potential for manipulative activity. 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 components of

---

33 See NDX Approval at 62149.

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 process keeps 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, an Authorized Participant can arbitrage this difference by buying the underlying shares that compose the ETF and then selling the ETF shares on the open market. This drives 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 drives 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.

Lastly, the Commission 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.[34] FINRA's existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior, which might arise from eliminating position and exercise limits.

---

[34] See NDX Approval at 62149.

4. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

ECONOMIC IMPACT ANALYSIS

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects transfers of wealth, relative to the current baseline, and the alternatives FINRA considered in assessing how to best meet its regulatory objectives.

Regulatory Objective

FINRA is proposing to amend Rule 2360 to harmonize FINRA's position limits for conventional options with the position limit for standardized options.[35]

Economic Baseline

Per FINRA Rule 2360(b)(30)(A)(iii) conventional equity options are subject to a basic position limit of 25,000 contracts or higher for conventional option contracts on securities that underlie exchange-traded options qualifying for a higher tier as determined by option exchange rules. The existing position limits for conventional options on ETFs are: 900,000 contracts for SPY or QQQ, 500,000 contracts for IWM or EEM, and 250,000 contracts for FXI, EFA, EWZ, TLT, or EWJ. Option exchanges have recently increased (or in the case of SPY decreased from the pilot program) position limit options on several ETFs such as SPY, IWM, QQQ, EEM, FXI, EFA, EWZ, TLT, and EWJ.

---

35 See note 6.

Economic Impact

Benefits

As noted above, the proposed rule change would amend Rule 2360 to harmonize FINRA's position limits for conventional options with the position limit for standardized options.[36] For investors that short conventional equity options or buy them long, there is likely to be a natural size for an executed order that minimizes fixed and variable transaction costs, including but not limited to the bid-ask spread, price impact, and transaction fees. If the existing position limits for conventional equity options on select ETFs constrains the order size such that fixed and variable transaction costs are higher than optimal, then investors may benefit if the new position limit is no less than the natural size. In such an event, the cost to hedge an ETF would decline, thereby making it less costly to manage downside risk.

In addition, if the existing position limits serve as a constraint, then an increase in the position limit for conventional options on select ETFs would permit investors to more easily find a counterparty. If the number of counterparties increases, then the cost of hedging should decline as the half-spread narrows, thereby making it less expensive to manage downside risk.

The extent of the constraint imposed by the current limit on conventional options is related to the ability of an investor to achieve similar economic exposure through other means. If there are other securities, such as an option on a closely related index, that exist and provide similar economic exposure less expensively, then the value of lessening the position limit on conventional options on ETFs is lower. Members may rely on

---

36 See note 6.

information and data feeds from the Options Clearing Corporation to assist in their monitoring position limits. Because position limits on the standardized and conventional side have traditionally been consistent, members have relied on this feed for both standardized and conventional options. If the position limits between standardized and conventional options are conformed, then the cost from monitoring position limits should decline for member firms.

Cost

The proposed rule change may impose limited operational cost on member firms that trade conventional options on ETFs, as these same firms would need to revise position limits that are used in trading systems. However, the proposed rule change should not impose additional costs, because it is difficult to disrupt or manipulate the underlying market, create an incentive to disrupt or manipulate the underlying market for the purpose of profiting from the options position, or disrupt or manipulate the options market for conventional options on ETFs affected by this proposed rule. ETFs that underlie options subject to the proposed rule change are highly liquid, and are based on a broad set of highly liquid securities, which makes the market difficult to manipulate or disrupt. In fact, options on certain broad-based security indexes have no position limits. Furthermore, the creation and redemption process for these ETFs reduces the potential for disruptive or manipulative activity. New ETF units may be created at any time during the trading day and are not subject to position limits. Consequently, there is a direct link between the underlying components of the ETF and the ETF, which keeps ETF share prices trading in line with the ETF's underlying net asset value.

Alternatives

No further alternatives are under consideration.

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

Written comments were neither solicited nor received.

6. **Extension of Time Period for Commission Action**

Not applicable.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3) of the Act[37] and paragraph (f)(6) of Rule 19b-4 thereunder,[38] in that the proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and does not become operative for 30 days after filing or such shorter time as the Commission may designate. The proposed rule change is based on the rules of the options exchanges as noted in Item 8 below, and thus would ensure consistent regulation with respect to position limits (and exercise limits)[39] for ETF options noted above as such may be established by an options exchange as approved by the SEC for the protection of investors and the public interest.

---

37 15 U.S.C. 78s(b)(3).

38 17 CFR 240.19b-4(f)(6).

39 See note 6. Rule 2360(b)(4) sets forth exercise limits through incorporating by reference options position limits under the rule. Accordingly, although the proposed rule change would not amend the text of Rule 2360(b)(4), the proposed rule change also would correspondingly raise exercise limits on the option.

FINRA requests that the Commission waive the requirement that the rule change, by its terms, not become operative for 30 days after the date of the filing as set forth in Rule 19b-4(f)(6)(iii),[40] so FINRA may immediately harmonize position limits with those of other self-regulatory organizations to ensure consistent regulation for the protection of investors and the public interest. In accordance with Rule 19b-4(f)(6),[41] FINRA submitted 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, or such shorter time as the Commission may designate, as specified in Rule 19b-4(f)(6)(iii) under the Act.[42]

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

See for example Cboe Rule 4.11 and MIAX Rule 307.[43]

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

---

40 17 CFR 240.19b-4(f)(6)(iii).

41 17 CFR 240.19b-4(f)(6).

42 17 CFR 240.19b-4(f)(6)(iii).

43 See note 6.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2018-034)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 2360 (Options) to Increase Position Limits on Options on Certain Exchange-Traded Funds

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 , Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4 under the Act,[3] which renders the proposal effective upon receipt of this filing by the Commission. 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

FINRA is proposing to amend FINRA Rule 2360 (Options) to increase the position limit for conventional options on the following exchange-traded funds ("ETF"): The Standard and Poor's Depositary Receipts Trust ("SPY"), iShares Russell 2000 ETF ("IWM"), PowerShares QQQ Trust ("QQQ"), iShares MSCI Emerging Markets ETF

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 17 CFR 240.19b-4(f)(6).

("EEM"), iShares China Large-Cap ETF ("FXI"), iShares MSCI EAFE ETF ("EFA"), iShares MSCI Brazil Capped ETF ("EWZ"), iShares 20+ Year Treasury Bond Fund ETF ("TLT"), and iShares MSCI Japan ETF ("EWJ").

Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

* * * * *

2360. Options

(a) No Change.

(b) Requirements

(1) through (2) No Change.

(3) Position Limits

(A) Stock Options —

(i) through (ii) No Change.

(iii) Conventional Equity Options

a. For purposes of this paragraph (b), standardized equity option contracts of the put class and call class on the same side of the market overlying the same security shall not be aggregated with conventional equity option contracts or FLEX Equity Option contracts overlying the same security on the same side of the market. Conventional equity option contracts of the put class and call class on the same side of the market overlying the same security shall be subject to a position limit of:

1. through 5. No Change.

6. for selected conventional options on exchange-traded funds ("ETF"), the position limits are listed in the chart below:

Security Underlying Option	**Position Limit**
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depositary Receipts Trust (SPY)	[900,000]1,800,000 contracts
The iShares Russell 2000 [Index Fund]ETF (IWM)	[500,000]1,000,000 contracts
The PowerShares QQQ Trust (QQQ[Q])	[900,000]1,800,000 contracts
The iShares MSCI Emerging Markets [Index Fund]ETF (EEM)	[500,000]1,000,000 contracts
iShares China Large-Cap ETF (FXI)	500,000 contracts
iShares MSCI EAFE ETF (EFA)	500,000 contracts
iShares MSCI Brazil Capped ETF (EWZ)	500,000 contracts
iShares 20+ Year Treasury Bond Fund ETF (TLT)	500,000 contracts
iShares MSCI Japan ETF (EWJ)	500,000 contracts

b. No Change.

(B) through (D) No Change.

(4) through (24) No Change.

(c) No Change.

• • • Supplementary Material: --------------

.01 through .03 No Change.

* * * * *

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

In its filing with the Commission, FINRA 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. FINRA 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

FINRA Rule 2360(b)(3)(A) imposes a position limit on the number of equity options contracts in each class on the same side of the market that can be held or written by a member, a person associated with a member, or a customer or a group of customers acting in concert. Position limits are intended to prevent the establishment of options positions that can be used to manipulate or disrupt the underlying market or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In addition, position limits serve to reduce the potential for disruption of the options market itself, especially in illiquid options classes.[4] This consideration has been balanced by the concern that the limits "not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market."[5]

Rule 2360(b)(3)(A)(i) does not independently establish a position limit for standardized equity options. Rather, the position limit established by the rules of an

---

4 See Securities Exchange Act Release No. 40969 (January 22, 1999), 64 FR 4911, 4912-4913 (February 1, 1999) (Order Approving File No. SR-CBOE-98-23) (citing H.R. No. IFC-3, 96th Cong., 1st Sess. at 189-91 (Comm. Print 1978)).

5 Id. at 4913.

options exchange for a particular equity option is the applicable position limit for purposes of Rule 2360.[6] Rule 2360(b)(3)(A)(iii) provides that conventional equity options are subject to a basic position limit of 25,000 contracts or a higher tier for conventional option contracts on securities that underlie exchange-traded options qualifying for such higher tier as determined by the rules of the options exchanges. In addition, FINRA lists position limits for options on securities that have higher position limits – currently, only the ETFs listed in Rule 2360(b)(3)(A)(iii)a.6. – that also generally mirror the options exchange position limits.[7] At this time, FINRA proposes to conform to the options exchanges' recent amendments that increased (or in the case of SPY

---

6 See e.g., CBOE Rule 4.11; ISE Rule 412; NASDAQ PHLX Rule 1001; NYSE American Rule 904; NYSE Arca Rule 6.8; MIAX Rule 307; BOX Rule 3120 and IM-3120-2; Nasdaq Chapter III, Section 7; BX Chapter III, Section 7; and BZX Rule 18.7.

7 The options exchanges have recently revised the position limit on SPY options to 1,800,000 contracts after expiration of a pilot program on July 12, 2018 that eliminated position limits on SPY options. FINRA retained its position for conventional options on SPY at 900,000 contracts. The proposed rule change proposes to increase the position limit on SPY to 1,800,000 consistent with the options exchanges updating the position limit on SPY to 1,800,000 contracts. See Securities Exchange Act Release No. 83349 (May 30, 2018), 83 FR 26123 (June 5, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-MIAX-2018-11). See also Securities Exchange Act Release No. 83412 (June 12, 2018), 83 FR 28298 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-PHLX-2018-44); Securities Exchange Act Release No. 83414 (June 12, 2018), 83 FR 28296 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-BOX-2018-22); Securities Exchange Act Release No. 83415 (June 12, 2018), 83 FR 28274 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-CBOE-2018-042); Securities Exchange Act Release No. 83413 (June 12, 2018), 83 FR 28277 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEArca-2018-44); and Securities Exchange Act Release No. 83417 (June 12, 2018), 83 FR 28279 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEAMER-2018-26).

decreased from the pilot program) the position limit options on the following ETFs: SPY, IWM, QQQ, EEM, FXI, EFA, EWZ, TLT and EWJ.[8]

The proposed rule change would amend the table provided in Rule 2360(b)(3)(A)(iii)a.6. as follows:

- The position limits for options on SPY would be increased from 900,000 contracts to 1,800,000 contracts;
- The position limit for options on IWM would be increased from 500,000 contracts to 1,000,000 contracts;
- The position limit for options on QQQ would be increased from 900,000 contracts to 1,800,000 contracts; and
- The position limit for options on EEM would be increased from 500,000 contracts to 1,000,000 contracts.

---

8 See note 7 for discussion regarding position limits for options on SPY. See also Securities Exchange Act Release No. 82770 (February 23, 2018), 83 FR 8907 (March 1, 2018) (Order Granting Accelerated Approval of File No. SR-CBOE-2017-057). See also Securities Exchange Act Release No. 82931 (March 22, 2018), 83 FR 13323 (March 28, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-MIAX-2018-10); Securities Exchange Act Release No. 82930 (March 22, 2018), 83 FR 13330 (March 28, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-BOX-2018-10); Securities Exchange Act Release No. 82932 (March 22, 2018), 83 FR 13316 (March 28, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-PHLX-2018-24); Securities Exchange Act Release No. 83066 (April 19, 2018), 83 FR 18099 (April 25, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEArca-2018-23) and Securities Exchange Act Release No. 83065 (April 19, 2018), 83 FR 18093 (April 25, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEAMER-2018-14).

In addition, the proposed rule change would add to the table provided in Rule 2360(b)(3)(A)(iii)a.6. as follows, with the effect of each ETF being increased from the current position limit of 250,000 contracts:

- The position limit for options on FXI would be increased to 500,000 contracts;
- The position limit for options on EFA would be increased to 500,000 contracts;
- The position limit for options on EWZ would be increased to 500,000 contracts;
- The position limit for options on TLT would be increased to 500,000 contracts; and
- The position limit for options on EWJ would be increased to 500,000 contracts.[9]

In support of the proposed rule change, as noted by Cboe, position limits are determined by the option exchange's requirements according to the number of outstanding shares and the trading volume of the underlying ETF over the past six months.[10] 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. The above listed ETFs are listed on various national securities exchanges and meet their listing standards.

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks.[11] EEM tracks the performance of the MSCI Emerging

---

9 The proposed rule filing would also make certain wording changes to the listing of the names of the ETFs and change in two places "Index Fund" to "ETF". The proposed rule filing would also revise the symbol of The PowerShares QQQ Trust to "QQQ."

10 See for example, Cboe Rule 4.11 Interpretations and Policies:.02.

11 See https://www.ishares.com/us/products/239536/ishares-china-largecap-etf.

Markets Index, which is composed of approximately 800 component securities from emerging market countries from all over the world.[12] IWM tracks the performance of the Russell 2000 Index, which is composed of 2,000 small-cap domestic stocks.[13] EFA tracks the performance of MSCI EAFE Index, which has over 900 component securities.[14] The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australia and the Far East, excluding the U.S. and Canada.[15] EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil.[16] TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds.[17] QQQ tracks the performance of the Nasdaq-100 Index, which is composed of 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market LLC ("Nasdaq").[18] EWJ tracks the MSCI Japan Index, which tracks the performance of

---

12 See https://www.ishares.com/us/products/239637/ishares-msci-emerging-markets-etf.

13 See https://www.ishares.com/us/products/239710/ishares-russell-2000-etf.

14 See https://www.ishares.com/us/products/239623/.

15 See https://www.msci.com/eafe.

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

17 See https://www.ishares.com/us/products/239454/.

18 See https://indexes.nasdaqomx.com/Index/Overview/NDX.

large and mid-sized companies in Japan.[19] SPY tracks the performance of the S&P 500® Index, which is an index of diversified large cap U.S. companies.[20]

In support of this proposal, all trading and other statistics, except SPY which were compiled by FINRA, have been compiled by Cboe as of the dates provided by Cboe and provided in its proposed rule change to increase the applicable positions limits:[21]

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
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	$7,442.4
QQQ	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

FINRA agrees as proposed by Cboe that the liquidity in the underlying ETFs, and the liquidity in the ETF options support its request to increase the position limits for the options subject to the proposed rule change. As to the underlying ETF shares, the average daily trading volume across all exchanges for the period of January 1 to July 31,

19 See https://www.ishares.com/us/products/239665/EWJ.

20 See https://us.spdrs.com/en/etf/spdr-sp-500-etf-SPY.

21 See note 8.

2017 was: (i) FXI- 15.08 million shares; (ii) EEM- 52.12 million shares; (iii) IWM- 27.46 million shares; (iv) EFA- 19.42 million shares; (v) EWZ- 17.08 million shares; (vi) TLT- 8.53 million shares; (vii) QQQ- 26.25 million shares; (vii) EWJ- 6.06 million shares; and (viii) SPY- 64.63 million shares.

In proposing the increased position limits, FINRA considered the availability of economically equivalent products and their respective position limits. For instance, some of the ETFs underlying options subject to this proposal are based on broad-based indices that underlie cash-settled options that are economically equivalent to the ETF options that are the subject of this proposal and have no position limits (NDX and SPX). 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 and EFA). Where there was no approved index analogue, FINRA believes, 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 (example FXI and EWJ).[22] FINRA believes that if certain position limits are appropriate for the options overlying the same index, or 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, 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 issuer may look to the stocks comprising the analogous

---

[22] FINRA Rule 2360(b)(3)(B) establishes position limits for index options by incorporating by reference the position limit established by the options exchange on which the option trades. Options exchanges establish rules for index options based on the characteristic of the underlying index. See, e.g., Cboe Rule 24.4 and MIAX Rule 1804.

underlying index or reference asset when seeking to create additional ETF shares which are part of the creation/redemption process to address supply and demand or to mitigate the price movement of the price of the ETF.

For example, the PowerShares QQQ Trust or QQQ 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 the Nasdaq Stock Market LLC ("Nasdaq"). Options on NDX are currently subject to no position limits but share similar trading characteristics as QQQ. Based on QQQ's share price of $154.5422 and NDX's index level of 6,339.14, approximately 40 contracts of QQQ equals one contract of NDX. Assume that options on NDX are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000 contracts for QQQ as NDX's analogue. However, options on NDX are not subject to position limits and has an average daily trading volume of 15,300 contracts. Options on QQQ are currently subject to a position limit of 900,000 contracts but has a much higher average daily trading volume of 579,404 contracts. Furthermore, NDX currently has a market capitalization of $17.2 trillion and QQQ 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 market capitalizations being large enough to absorb any price movement caused by a large trade in the QQQ. The Commission has also approved no position limit for options on NDX, although it has a much lower daily trading volume than its analogue, the QQQ. Therefore, FINRA believes it is reasonable to increase the position limit for options on QQQ from 900,000 to 1,800,000 contracts.

The SPDR® S&P 500® ETF Trust or SPY seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index or SPX, which is an index composed of 500 large-cap U.S. companies. Options on the SPX have no position limits and share similar trading characteristics as SPY. Based on SPY's price of $263.15 and SPX's index level of 2640.87, approximately 10 contracts of SPY equals one contract of SPX.[23] Assume that options on SPX are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit equivalent to 250,000 contracts for options on SPY as SPX's analogue. However, options on SPX are not subject to position limits and has an average daily trading volume of 1,101,185 contracts.[24] Options on SPY were recently changed to a position limit of 1,800,000 contracts for standardized options, but is currently subject to a conventional option position limit of 900,000 contracts but has a much higher average daily trading volume of 2,575,153 contracts.[25] Furthermore, as of December 29, 2017, SPX had a market capitalization of $23.9 trillion and SPY has a market capitalization of $277.54 billion, large enough to absorb any price movement caused by a large trade in the SPY. The Commission has also approved no position limit for options on SPX, although it has a much lower daily trading volume than its analogue, the SPY, for which the exchanges recently changed the position limit to 1,800,000

---

23 As of March 29, 2018.

24 As of July 31, 2017.

25 See note 7.

contracts. Therefore, FINRA believes it is reasonable to increase the position limits for options on SPY from 900,000 to 1,800,000 contracts.

The iShares Russell 2000 ETF or IWM, is an ETF that also tracks the Russell 2000 index or RUT, which is an index composed of 2,000 small-cap domestic companies in the Russell 2000 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 options on RUT are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit equivalent to 250,000 contracts for options on IWM as RUT's analogue. However, options on RUT are not subject to position limits and has an average daily trading volume of 66,200 contracts. Options on IWM are 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 options on 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, FINRA believes it is reasonable to increase the position limit for options on IWM from 500,000 to 1,000,000 contracts.

EEM tracks the performance of the MSCI Emerging Markets Index or MXEF, which is composed of approximately 800 component securities from emerging market countries from all over the world. Below makes the same notional value comparisons as made above. 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. Assume that options on MXEF are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. Based on the above comparison of notional values, this would result in a position limit economically equivalent to 604,000 contracts for options on EEM as MXEF's analogue. However, MXEF has an average daily trading volume of 180 contracts. Options on 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, FINRA believes it is reasonable to increase the position limit for options on EEM from 500,000 to 1,000,000 contracts.

EFA tracks the performance of the 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, Australia and the Far East, excluding the U.S. and Canada. Below makes the same notional value comparison as made above. 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. Assume options on MXEA are subject to the standard position limit of 25,000 contracts for broad-based index options under options exchange rules. 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 EFA. However, MXEA has an average daily trading volume of 270 contracts. Options on 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, FINRA believes it is reasonable to increase the position limit for options on EFA from 250,000 to 500,000 contracts.

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. Options on FXI are currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 15.08 million shares. 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. Based on the above comparisons, FINRA believes it is reasonable to increase the position limit for options on FXI from 250,000 to 500,000 contracts.

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. Options on EWZ are currently subject to a position limit of 250,000 contracts but the ETF has a much higher average daily trading volume of 17.08 million shares. 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. Based on the above comparisons, FINRA believes it is reasonable to increase the position limit for options on EWZ from 250,000 to 500,000 contracts.

TLT tracks the performance of the 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, any potential for manipulation will not increase solely due to the increase in position limits as set forth in this proposal. Based on the above comparisons, FINRA believes it is reasonable to increase the position limit for options on TLT from 250,000 to 500,000 contracts.

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. Options on 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, FINRA believes it is reasonable to increase the position limit for options on EWJ from 250,000 to 500,000 contracts.

FINRA believes that increasing the position limits for the conventional options subject to the proposed rule change would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in these products.

Surveillance and Reporting

Further, FINRA believes that the increased position limits provisions are appropriate in light of the existing surveillance procedures and reporting requirements at FINRA,[26] the options exchanges, and at the several clearing firms, which are capable of properly identifying unusual or illegal trading activity. These procedures use daily monitoring of market movements by automated surveillance techniques to identify unusual activity in both options and underlying stocks.[27]

---

[26] See Rule 2360(b)(5) for the options reporting requirements.

[27] These procedures have been effective for the surveillance of options trading and will continue to be employed.

In addition, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.[28] Options positions are part of any reportable positions and cannot legally be hidden. Moreover, the previously noted Rule 2360(b)(5) requirement that members must file reports with FINRA for any customer that held aggregate large long or short positions of any single class for the previous day will continue to serve as an important part of FINRA's surveillance efforts.

Finally, FINRA believes that the current financial requirements imposed by FINRA and by the Commission adequately address financial responsibility concerns that a member or its customer will maintain an inordinately large unhedged position in any option with a higher position limit. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin or capital that a member must maintain for a large position. Under Rule 4210(f)(8)(A), FINRA also may impose a higher margin requirement upon a member when FINRA determines a higher requirement is warranted. In addition, the Commission's net capital rule[29] imposes a capital charge on members to the extent of any margin deficiency resulting from the higher margin requirement.

FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so FINRA can implement the proposed rule change immediately.

---

[28] 17 CFR 240.13d-1.

[29] 17 CFR 240.15c3-1.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[30] which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change promotes consistent regulation by harmonizing position limits with those of the other self-regulatory organizations. FINRA further believes that increasing the position limit on conventional options promotes consistent regulation by harmonizing the position limit with its standardized counterpart. In addition, FINRA believes the proposed rule change will be beneficial to large market makers and institutions (which generally have the greatest ability to provide liquidity and depth in products that may be subject to higher position limits as has been the case with recently approved increased position limits),[31] as well as retail traders and public customers, by providing them with a more effective trading and hedging vehicle. In addition, FINRA believes that the structure of the options subject to the proposed rule change and the considerable liquidity of the market for those options diminishes the opportunity to manipulate these products and disrupt the underlying market that a lower position limit may protect against.

Increased position limits for select actively traded options, such as those proposed herein, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved a position limit of 1,800,000 contracts on

---

[30] 15 U.S.C. 78o-3(b)(6).

[31] See note 8.

options on SPY.[32] Additionally, the Commission has approved similar proposed rule changes by the options exchanges to increase position and exercise limits for options on highly liquid, actively-traded ETFs,[33] 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, and Nasdaq 100 Index.[34] In approving the permanent elimination of position and exercise limits, the Commission relied heavily upon surveillance capabilities, and the Commission expressed trust in the enhanced surveillance and reporting safeguards in order to detect and deter possible manipulative behavior, which might arise from eliminating position and exercise limits.[35]

---

[32] See note 7.

[33] See Securities Exchange Act Release No. 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012) (Order Approving File No. SR-CBOE-2012-66); Securities Exchange Act Release No. 68478 (December 19, 2012), 77 FR 76132 (December 26, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-BOX-2012-23); Securities Exchange Act Release No. 68398 (December 11, 2012), 77 FR 74700 (December 17, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-ISE-2012-93); Securities Exchange Act Release No. 68293 (November 27, 2012), 77 FR 71644 (December 3, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-Phlx-2012-132); Securities Exchange Act Release No. 68358 (December 5, 2012), 77 FR 73708 (December 11, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSE MKT-2012-71); Securities Exchange Act Release No. 68359 (December 5, 2012), 77 FR 73716 (December 11, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSE Arca-2012-132) and Securities Exchange Act Release No. 69457 (April 25, 2013), 78 FR 25502 (May 1, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-MIAX-2013-17).

[34] See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (Order Approving File No. SR-CBOE-2001-22) and Securities Exchange Act Release No. 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (Order Approving File No. SR-CBOE-2005-41) ("NDX Approval").

[35] See NDX Approval at 62149.

Furthermore, as described more fully above, options on other ETFs have the position limits proposed herein, but their trading volumes are significantly lower than the ETFs subject to the proposed rule change.

Furthermore, the proposed position limits would continue to address potential manipulative activity while allowing for potential hedging activity for appropriate economic purposes. The creation and redemption process for these ETFs also lessens the potential for manipulative activity. 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 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 process keeps 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, an Authorized Participant can arbitrage this difference by buying the underlying shares that compose the ETF and then selling the ETF shares on the open market. This drives 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 drives 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.

Lastly, the Commission 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.[36] FINRA's existing surveillance and reporting safeguards are 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

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

ECONOMIC IMPACT ANALYSIS

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the potential economic impacts, including anticipated costs, benefits, and

---

[36] See NDX Approval at 62149.

distributional and competitive effects transfers of wealth, relative to the current baseline, and the alternatives FINRA considered in assessing how to best meet its regulatory objectives.

Regulatory Objective

FINRA is proposing to amend Rule 2360 to harmonize FINRA's position limits for conventional options with the position limit for standardized options.[37]

Economic Baseline

Per FINRA Rule 2360(b)(30)(A)(iii) conventional equity options are subject to a basic position limit of 25,000 contracts or higher for conventional option contracts on securities that underlie exchange-traded options qualifying for a higher tier as determined by option exchange rules. The existing position limits for conventional options on ETFs are: 900,000 contracts for SPY or QQQ, 500,000 contracts for IWM or EEM, and 250,000 contracts for FXI, EFA, EWZ, TLT, or EWJ. Option exchanges have recently increased (or in the case of SPY decreased from the pilot program) position limit options on several ETFs such as SPY, IWM, QQQ, EEM, FXI, EFA, EWZ, TLT, and EWJ.

Economic Impact

Benefits

As noted above, the proposed rule change would amend Rule 2360 to harmonize FINRA's position limits for conventional options with the position limit for standardized options.[38] For investors that short conventional equity options or buy them long, there is

---

[37] See note 8.

[38] See note 8.

likely to be a natural size for an executed order that minimizes fixed and variable transaction costs, including but not limited to the bid-ask spread, price impact, and transaction fees. If the existing position limits for conventional equity options on select ETFs constrains the order size such that fixed and variable transaction costs are higher than optimal, then investors may benefit if the new position limit is no less than the natural size. In such an event, the cost to hedge an ETF would decline, thereby making it less costly to manage downside risk.

In addition, if the existing position limits serve as a constraint, then an increase in the position limit for conventional options on select ETFs would permit investors to more easily find a counterparty. If the number of counterparties increases, then the cost of hedging should decline as the half-spread narrows, thereby making it less expensive to manage downside risk.

The extent of the constraint imposed by the current limit on conventional options is related to the ability of an investor to achieve similar economic exposure through other means. If there are other securities, such as an option on a closely related index, that exist and provide similar economic exposure less expensively, then the value of lessening the position limit on conventional options on ETFs is lower. Members may rely on information and data feeds from the Options Clearing Corporation to assist in their monitoring position limits. Because position limits on the standardized and conventional side have traditionally been consistent, members have relied on this feed for both standardized and conventional options. If the position limits between standardized and conventional options are conformed, then the cost from monitoring position limits should decline for member firms.

Cost

The proposed rule change may impose limited operational cost on member firms that trade conventional options on ETFs, as these same firms would need to revise position limits that are used in trading systems. However, the proposed rule change should not impose additional costs, because it is difficult to disrupt or manipulate the underlying market, create an incentive to disrupt or manipulate the underlying market for the purpose of profiting from the options position, or disrupt or manipulate the options market for conventional options on ETFs affected by this proposed rule. ETFs that underlie options subject to the proposed rule change are highly liquid, and are based on a broad set of highly liquid securities, which makes the market difficult to manipulate or disrupt. In fact, options on certain broad-based security indexes have no position limits. Furthermore, the creation and redemption process for these ETFs reduces the potential for disruptive or manipulative activity. New ETF units may be created at any time during the trading day and are not subject to position limits. Consequently, there is a direct link between the underlying components of the ETF and the ETF, which keeps ETF share prices trading in line with the ETF's underlying net asset value.

Alternatives

No further alternatives are under consideration.

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

Written comments were neither solicited nor 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 Act[39] and Rule 19b-4(f)(6) thereunder.[40]

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. Please include File Number SR-FINRA-2018-034 on the subject line.

---

39 15 U.S.C. 78s(b)(3)(A).

40 17 CFR 240.19b-4(f)(6).

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2018-034. 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 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. 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-FINRA-2018-034 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]

Robert W. Errett
Deputy Secretary

[41] 17 CFR 200.30-3(a)(12).