

Required fields are shown with yellow backgrounds and asterisks.

Filing by Nasdaq ISE, LLC  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
--	--

**Description**

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

A proposal to amend ISE Rules 412, Position Limits, and 414, Exercise Limits, to increase the position and exercise limits for options.

**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 * Carla	Last Name * Behnfeldt
Title * Associate General Counsel	
E-mail * carla.behnfeldt@nasdaq.com	
Telephone * (215) 496-5208	Fax


**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.

(Title \*)

Date 04/20/2018	Executive Vice President and General Counsel
By Edward S. Knight	
(Name *)	



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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF 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) Nasdaq ISE, LLC (“ISE” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend ISE Rules 412, Position Limits, and 414, Exercise Limits, to increase the position and exercise limits for options on the following exchange traded funds (“ETFs”): iShares China Large-Cap ETF (“FXI”), iShares MSCI EAFE ETF (“EFA”), iShares MSCI Emerging Markets ETF (“EEM”), iShares Russell 2000 ETF (“IWM”), iShares MSCI Brazil Capped ETF (“EWZ”), iShares 20+ Year Treasury Bond Fund ETF (“TLT”), PowerShares QQQ Trust (“QQQQ”), and iShares MSCI Japan Index (“EWJ”). The Exchange requests that the Commission waive the 30-day operative delay period contained in Exchange Act Rule 19b-4(f)(6)(iii).<sup>3</sup>

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on September 19, 2017. Exchange staff will advise the Board of any action taken

---

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

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

<sup>3</sup> 17 CFR 240.19b-4(f)(6)(iii).

pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Carla Behnfeldt  
Associate General Counsel  
Nasdaq, Inc.  
(215) 496-5208

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

a. Purpose

Position Limit Increase

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

The Exchange proposes to revise Rule 412 to increase the position limits for options on certain ETFs, as described more fully below.<sup>4</sup> The Exchange believes that

---

<sup>4</sup> ISE Rule 414 establishes exercise limits for the corresponding options at the same levels as the corresponding security's position limits. Rule 414 would be amended such that the exercise limits for each of these options would be increased to the level of the new position limits.

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

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

Second, the Exchange proposes to increase the position limits for options on EEM and IWM from 500,000 contracts to 1,000,000 contracts.<sup>5</sup>

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

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

---

<sup>5</sup> The Exchange is also amending Rules 412 and 414 to update and correct the names of IWM and EEM, which are currently referred to in that rule as the iShares® Russell 2000® Index Fund and iShares MSCI Emerging Markets Index Fund, respectively.

<sup>6</sup> The Exchange notes that the initial listing criteria for options on ETFs that hold non-U.S. component securities are more stringent than the maintenance listing criteria for those same ETF options. See Exchange Rule 503(h).

which is composed of the 50 largest Chinese stocks.<sup>7</sup> EEM tracks the performance of the MSCI Emerging Markets Index, which is composed of approximately 800 component securities.<sup>8</sup> The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.<sup>9</sup> IWM tracks the performance of the Russell 2000 Index, which is composed of 2,000 small-cap domestic stocks.<sup>10</sup> EFA tracks the performance of MSCI EAFE Index, which has over 900 component securities.<sup>11</sup> The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.<sup>12</sup> EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil.<sup>13</sup> TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds.<sup>14</sup> QQQQ tracks the performance of the Nasdaq-100 Index, which is composed of 100 of the largest domestic and international nonfinancial companies listed on the Nasdaq Stock Market

---

<sup>7</sup> See <https://www.ishares.com/us/products/239536/ishares-china-largecap-etf>.

<sup>8</sup> See [http://us.ishares.com/product\\_info/fund/overview/EEM.htm](http://us.ishares.com/product_info/fund/overview/EEM.htm).

<sup>9</sup> See <http://www.msci.com/products/indices/tools/index.html#EM>.

<sup>10</sup> See <https://www.ishares.com/us/products/239710/ishares-russell-2000-etf>.

<sup>11</sup> See <https://www.ishares.com/us/products/239623/>.

<sup>12</sup> See <https://www.msci.com/eafe>.

<sup>13</sup> See <https://www.ishares.com/us/products/239612/ishares-msci-brazil-capped-etf>.

<sup>14</sup> See <https://www.ishares.com/us/products/239454/>.

LLC (“Nasdaq”).<sup>15</sup> EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan.<sup>16</sup>

The Exchange represents that more than 50% of the weight of the securities held by the options subject to this proposal are also subject to a CSA.<sup>17</sup> Additionally, the component securities of the MSCI Emerging Markets Index on which EEM is based for which the primary market is in any one country that is not subject to a CSA do not represent 20% or more of the weight of the MSCI Emerging Markets Index.<sup>18</sup> Finally, the component securities of the MSCI Emerging Markets Index on which EEM is based, for which the primary market is in any two countries that are not subject to CSAs do not represent 33% or more of the weight of the MSCI Emerging Markets Index.<sup>19</sup>

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

### The CBOE Analysis

---

<sup>15</sup> See <https://www.invesco.com/portal/site/us/financial-professional/etfs/productdetail?productId=QQQ&ticker=QQQ&title=powershares-qqq>.

<sup>16</sup> See <https://www.ishares.com/us/products/239665/EWJ>.

<sup>17</sup> See Exchange Rule 502(h)(b)(2).

<sup>18</sup> See Exchange Rule 502(h)(b)(3).

<sup>19</sup> See Exchange Rule 502(h)(b)(4).

The Commission has recently approved a proposed rule change of the Chicago Board Options Exchange (“CBOE”) to increase position limits for these same options.<sup>20</sup> The discussion that follows is based upon the CBOE’s analysis presented in that proposal.

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

<b>ETF</b>	<b>2017 ADV (Mil. Shares)</b>	<b>2017 ADV (option contracts)</b>	<b>Shares Outstanding (Mil.)</b>	<b>Fund Market Cap (\$Mil.)</b>
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
QQQQ	26.25	579,404	351.6	\$50,359.7
EWJ	6.06	4,715	303.6	\$16,625.1
SPY	64.63	2,575,153	976.23	\$240,540.0

In support of its proposal to increase the position limits for QQQQ to 1,800,000 contracts, CBOE compared the trading characteristics of QQQQ to that of the SPDR S&P 500 ETF (“SPY”), which has no position limits. As shown in the above table, the

<sup>20</sup> See Securities Exchange Act Release No. 82770 (February 23, 2018) (approving SR-CBOE-2017-057).



average daily trading volume through August 14, 2017 for QQQQ was 26.25 million shares compared to 64.63 million shares for SPY. The total shares outstanding for QQQQ are 351.6 million compared to 976.23 million for SPY. The fund market cap for QQQQ is \$50,359.7 million compared to \$240,540 million for SPY. SPY is one of the most actively trading ETFs and is, therefore, subject to no position limits. QQQQ is also very actively traded, and while not to the level of SPY, should be subject to the proposed higher position limits based on its trading characteristics when compared to SPY. The proposed position limit coupled with QQQQ's trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in its underlying the options.

In support of its proposal to increase the position limits for EEM and IWM from 500,000 contracts to 1,000,000 contracts, CBOE also compared the trading characteristics of EEM and IWM to that of QQQQ, which currently has a position limit of 900,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for EEM was 52.12 million shares and IWM was 27.46 million shares compared to 26.25 million shares for QQQQ. The total shares outstanding for EEM are 797.4 million and for IWM are 253.1 million compared to 351.6 million for QQQQ. The fund market cap for EEM is \$34,926.1 million and IWM is \$35,809 million compared to \$50,359.7 million for QQQQ. EEM, IWM and QQQQ have similar trading characteristics and subjecting EEM and IWM to the proposed higher position limit would continue be designed to address potential manipulate schemes that may arise from trading in the options and their underlying securities. These above trading characteristics for QQQQ when compared to EEM and IWM also justify increasing the position limit for

QQQQ. QQQQ has a higher options ADV than EEM and IWM, a higher numbers of shares outstanding than IWM and a much higher market cap than EEM and IWM which justify doubling the position limit for QQQQ. CBOE concluded that, based on these statistics, and as stated above, the proposed position limit coupled with QQQQ's trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in the securities underlying the options.

In support of its proposal to increase the position limits for FXI, EFA, EWZ, TLT, and EWJ from 250,000 contracts to 500,000 contracts, CBOE compared the trading characteristics of FXI, EFA, EWZ, TLT, and EWJ to that of EEM and IWM, both of which currently have a position limit of 500,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for FXI is 15.08 million shares, EFA is 19.42 million shares, EWZ is 17.08 million shares, TLT is 8.53 million shares, and EWJ is 6.06 million shares compared to 52.12 million shares for EEM and 27.46 million shares for IWM. The total shares outstanding for FXI is 78.6 million, EFA is 1178.4 million, EWZ is 159.4 million, TLT is 60 million, and EWJ is 303.6 million compared to 797.4 million for EEM and 253.1 million for IWM. The fund market cap for FXI is \$3,343.6 million, EFA is \$78,870.3 million, EWZ is \$6,023.4 million, TLT is \$7,442.4 million, and EWJ is \$16,625.1 million compared to \$34,926.1 million for EEM and \$35,809.1 million for IWM.

In Partial Amendment No. 1 to its proposed rule change, CBOE provided additional analysis and support for its proposed rule change.<sup>21</sup> According to CBOE, market participants' trading activity has been adversely impacted by the current position

---

<sup>21</sup> See SR-CBOE-2017-057, Partial Amendment No. 1 (November 22, 2017).

limits as such limits have caused options trading in the symbols subject to the proposed rule change to move from exchanges to the over-the-counter market. CBOE stated it had submitted the proposed rule change at the request of market participants whose on-exchange activity has been hindered by the existing position limits causing them to be unable to provide additional liquidity not just on CBOE, but also on other options exchanges on which they participate.

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

CBOE observed that the ETFs that underlie options subject to the proposed rule change are highly liquid, and are based on a broad set of highly liquid securities and other reference assets, and noted that the Commission has generally looked through to the

liquidity of securities comprising an index in establishing position limits for cash-settled index options. It further noted that options on certain broad-based security indexes have no position limits. CBOE observed that the Commission has recognized the liquidity of the securities comprising the underlying interest of the SPDR S&P 500 ETF (“SPY”) in permitting no position limits on SPY options since 2012,<sup>22</sup> and expanded position limits for options on EEM, IWM and QQQQ.

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

---

<sup>22</sup> See Securities Exchange Act Release No. 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091).

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

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

considered a broad-based index.<sup>23</sup> CBOE argued that if certain position limits are appropriate for the options overlying the same index or is an analogue to the basket of securities that the ETF tracks, then those same economically equivalent position limits should be appropriate for the option overlying the ETF. In addition, CBOE observed, the market capitalization of the underlying index or reference asset is large enough to absorb any price movements that may be caused by an oversized trade. Also, the Authorized Participant or issuer may look to the stocks comprising the analogous underlying index or reference asset when seeking to create additional ETF shares are part of the creation/redemption process to address supply and demand or to mitigate the price movement the price of the ETF. CBOE offered the following specific examples to illustrate:

QQQQ

For example, the PowerShares QQQ Trust or QQQQ is an ETF that tracks the Nasdaq 100 Index or NDX, which is an index composed of 100 of the largest non-financial securities listed on Nasdaq. Options on NDX are currently subject to no position limits but share similar trading characteristics as QQQQ. Based on QQQQ's share price of \$154.54<sup>24</sup> and NDX's index level of 6,339.14, approximately 40 contracts of QQQQ equals one contract of NDX. Assume that NDX was subject to the standard position limit of 25,000 contracts for broad-based index options. Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000

---

<sup>23</sup> CBOE Rule 24.4 and Exchange Rule 2004 set forth the CBOE and the ISE position limits for broad-based index options.

<sup>24</sup> CBOE stated that all share prices used in its analysis were based on the closing price of the security on November 16, 2017 and cited Yahoo Finance as the source.

contracts for QQQQ as NDX's analogue. However, NDX is not subject to position limits and has an average daily trading volume of 15,300 contracts. QQQQ is currently subject to a position limit of 900,000 contracts but has a much higher average daily trading volume of 579,404 contracts. Furthermore, NDX currently has a market capitalization of \$17.2 trillion and QQQQ has a market capitalization of \$50,359.7 million, and the component securities of NDX, in aggregate, have traded an average of 440 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the QQQQ. The Commission has also approved no position limit for NDX, although it has a much lower average daily trading volume than its analogue, the QQQQ. Therefore, CBOE concluded and the Exchange agrees it was reasonable to increase the position limit for options on the QQQQ from 900,000 to 1,800,000 contracts.

#### IWM

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

average daily trading volume of 490,070 contracts. The Commission has approved no position limit for RUT, although it has a much lower average daily trading volume than its analogue, the IWM. Furthermore, RUT currently has a market capitalization of \$2.4 trillion and IWM has a market capitalization of \$35,809.1 million, and the component securities of RUT, in aggregate, have traded an average of 270 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the IWM. Therefore, CBOE concluded and the Exchange agrees it is reasonable to increase the position limit for options on the IWM from 500,000 to 1,000,000 contracts.

### EEM

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



aggregate, have traded an average of 33.6 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the EEM. Therefore, based on the comparison of average daily trading volume, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on the IWM from 500,000 to 1,000,000 contracts.

#### EFA

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

FXI

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks. There is currently no index analogue for FXI approved for options trading. However, the FTSE China 50 Index currently has a market capitalization of \$1.7 trillion and FXI has a market capitalization of \$2,623.18 million, both large enough to absorb any price movement caused by a large trade in FXI. The components of the FTSE China 50 Index, in aggregate, have an average daily trading volume of 2.3 billion shares. FXI is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 15.08 million shares. Based on the above comparisons, CBOE believed, and that Exchange agrees, that it is reasonable to increase the position limit for options on the FXI from 250,000 to 500,000 contracts.

EWZ

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

TLT

TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds. There is currently no index analogue for TLT approved for options trading. However, the U.S. Treasury market is one of the largest and most liquid markets in the world, with over \$14 trillion outstanding and turnover of approximately \$500 billion per day. TLT currently has a market capitalization of \$7,442.4 million, both large enough to absorb any price movement caused by a large trade in TLT. Therefore, the potential for manipulation will not increase solely due to the increase in position limits as set forth in the proposed rule change. Based on the above comparisons, CBOE believed and the Exchange agrees it is reasonable to increase the position limit for options on the TLT from 250,000 to 500,000 contracts.

EWJ

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

ISE Analysis and Conclusions

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

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

On the basis of CBOE's analysis ISE also believes that market participants' trading activity could be adversely impacted by the current position limits for EEM, IWM and QQQQ. As discussed above, EEM, IWM and QQQQ have similar trading characteristics. Subjecting EEM and IWM to the proposed higher position limit would

continue be designed to address potential manipulate schemes that may arise from trading in the options and their underlying securities. The trading characteristics for QQQQ described above, when compared to EEM and IWM, also justify increasing the position limit for QQQQ. QQQQ has a higher options ADV than EEM and IWM, a higher numbers of shares outstanding than IWM and a much higher market cap than EEM and IWM which justify doubling the positon limit for QQQQ. Based on these statistics, the proposed position limit coupled with QQQQ's trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in its underlying the options.

The Exchange believes that increasing the position limits for the options subject to this proposal would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in this product. Under the proposal, the reporting requirement for the above options would be unchanged. Thus, the Exchange would still require that each Member file with the Exchange the name, address and social security or tax identification number of any customer, as well as any Member, any general or special partner of the Member, any officer or director of the Member or any participant, as such, in any joint, group or syndicate account with the Member or with any partner, officer or director thereof, who, on the previous business day held aggregate long or short positions of 200 or more options contracts of any single class of options traded on the Exchange. The report is also required to indicate for each such class of options contracts the number of options contracts comprising each such position and, in case of short positions, whether covered or uncovered. Additionally, Electronic Access Members that maintain an end of day position in excess of 10,000 non-FLEX equity

options contracts on the same side of the market on behalf of its own account or for the account of a customer, are required to report whether such position is hedged and provide documentation as to how such position is hedged. This report is required at the time the subject account exceeds the 10,000 contract threshold and thereafter, for customer accounts, when the position increases by 2,500 contracts and for proprietary accounts when the position increases by 5,000 contracts. Finally, Members are also required to report promptly to the Exchange any instance in which the Member has reason to believe that a person included in Rule 415(a), acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to Rule 412.<sup>25</sup>

The Exchange believes that the existing surveillance procedures and reporting requirements at the Exchange, other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity. In addition, routine oversight inspections of the Exchange's regulatory programs by the Commission have not uncovered any material inconsistencies or shortcomings in the manner in which the Exchange's market surveillance is conducted. These procedures utilize daily monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and underlying stocks.<sup>26</sup>

Furthermore, large stock holdings must be disclosed to the Commission by way of

---

<sup>25</sup> See Exchange Rule 415 for reporting requirements.

<sup>26</sup> These procedures have been effective for the surveillance of trading the options subject to this proposal and will continue to be employed.

Schedules 13D or 13G.<sup>27</sup> The positions for options subject to this proposal are part of any reportable positions and, thus, cannot be legally hidden. Moreover, the Exchange's requirement that Members file reports with the Exchange for any customer who held aggregate large long or short positions of any single class for the previous day will continue to serve as an important part of the Exchange's surveillance efforts.

The Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns that a member organization or its customer may try to maintain an inordinately large un-hedged position in the options subject to this proposal. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin and/or capital that a member organization must maintain for a large position held by itself or by its customer.<sup>28</sup> In addition, Rule 15c3-1<sup>29</sup> imposes a capital charge on member organizations to the extent of any margin deficiency resulting from the higher margin requirement.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>30</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>31</sup> in particular,

---

<sup>27</sup> 17 CFR 240.13d-1.

<sup>28</sup> See Exchange Rule 1202(a), which provides that a Member must elect to be bound by the initial and maintenance margin requirements of either the CBOE or the New York Stock Exchange as the same may be in effect from time to time.

<sup>29</sup> 17 CFR 240.15c3-1.

<sup>30</sup> 15 U.S.C. 78f(b).

<sup>31</sup> 15 U.S.C. 78f(b)(5).

in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As noted above, the Commission has recently approved increasing position limits to the levels proposed herein on the same ETF options on the CBOE. The Exchange believes that the proposed position limits would continue to address potential manipulative activity while allowing for potential hedging activity for appropriate economic purposes.

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

Increased position limits for select actively traded options, such as that proposed herein, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved, on a pilot basis, eliminating position limits for certain options.<sup>32</sup> Additionally, the Commission has approved similar proposed rule

---

<sup>32</sup> See Securities Exchange Act Release Nos. 67672 (August 15, 2012), 77 FR 50750 (August 22, 2012)(SR-NYSEAmex-2012-29); 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091).



changes to increase position limits for options on highly liquid, actively-traded ETFs,<sup>33</sup> including a proposal to permanently eliminate the position and exercise limits for options overlaying the S&P 500 Index, S&P 100 Index, Dow Jones Industrial Average, Nasdaq 100 Index, and the Russell 2000(R) Index ("RUT").<sup>34</sup> In approving the permanent elimination of position and exercise limits for these index options, the Commission relied heavily upon the Exchange's surveillance capabilities, and the Commission expressed trust in the enhanced surveillance and reporting safeguards that the Exchange took in order to detect and deter possible manipulative behavior which might arise from eliminating position and exercise limits.<sup>35</sup> Furthermore, as described more fully above, options on other ETFs have the position limits proposed herein and those ETFs have trading characteristics and trading volumes that are similar to those of the ETFs subject to this proposed rule change.

Last, the Commission has expressed the belief that removing position and exercise limits may bring additional depth and liquidity without increasing concerns regarding intermarket manipulation or disruption of the options or the underlying

---

<sup>33</sup> See Securities Exchange Act Release Nos. 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012)(SR-CBOE-2012-066); 64928 (July 20, 2011), 76 FR 44633 (July 26,2011) (SR-CBOE-2011-065); 64695 (June 17, 2011), 76 FR 36942 (June 23, 2011) (SR-PHLX-2011-58); and 55176 (January 25, 2007), 72 FR 4741 (February 1, 2017) (SR-CBOE- 2007-008.).

<sup>34</sup> See Securities Exchange Act Release Nos. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (SR-CBOE-2001-22) (elimination of position and exercise limits on SPX, OEX, and DJX options) ("SPX, OEX, and DJX Position Limit Elimination Approval Order"); 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (SR-CBOE-2005-41) (elimination of position and exercise limits on NDX options) ("NDX Position Limit Elimination Approval Order"); 56651 (October 12, 2007), 72 FR 59130 (October 18, 2007) (SR-Phlx-2007-71) ("RUT Position Limit Elimination Approval Order").

<sup>35</sup> Id.

securities.<sup>36</sup> The Exchange's enhanced surveillance and reporting safeguards continue to be designed to deter and detect possible manipulative behavior which might arise from eliminating position and exercise limits.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. On the contrary, the Exchange believes that the proposed rule change will result in additional opportunities to achieve the investment and trading objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general.

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

No written comments were either solicited or received.

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)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>37</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>38</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not

---

<sup>36</sup> Id.

<sup>37</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>38</sup> 17 CFR 240.19b-4(f)(6).

become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay period for “non-controversial” proposals contained in Rule 19b-4(f)(6)(iii) and make the proposed rule change effective and operative upon filing. Such a waiver will permit the Exchange to immediately implement the proposed rule change to increase the position limits as proposed herein and thereby seamlessly continue to offer traders and the investing public the ability to use these products as effective

hedging and trading vehicles. Additionally, such a waiver will allow the Exchange to remain competitive with other exchanges.

As discussed above, this proposal is similar to a rule change recently proposed by CBOE. The Exchange believes that this proposed rule change, which is essential for competitive purposes and to promote a free and open market for the benefit of investors, does not raise any new, unique or substantive issues from those raised in the CBOE proposal and would avoid the potential for regulatory inconsistencies for market participants that are also members of CBOE.

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

The proposed rule change is based on a CBOE proposed rule change and is substantially the same as the CBOE proposed rule change.<sup>39</sup>

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

1. Notice of Proposed Rule Change for publication in the Federal Register.
5. Text of the proposed rule change.

---

<sup>39</sup> See Securities Exchange Act Release No. 82770 (February 23, 2018) (approving SR-CBOE-2017-057).

**EXHIBIT 1**

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

April \_\_, 2018

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 20, 2018, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

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

---

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

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

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

Position Limit Increase

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

The Exchange proposes to revise Rule 412 to increase the position limits for options on certain ETFs, as described more fully below.<sup>3</sup> The Exchange believes that increasing the position limits for these options will lead to a more liquid and competitive market environment for these options that will benefit customers interested in these products.

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

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

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

In support of this proposal, the Exchange represents that the above listed ETFs qualify for either: (i) the initial listing criteria set forth in Exchange Rule 502(h) for ETFs holding non-U.S. component securities; or (ii) for ETFs listed pursuant to generic listing standards for series of portfolio depository receipts and index fund shares based on

---

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

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

international or global indexes under which a comprehensive surveillance agreement (“CSA”) is not required.<sup>5</sup> FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks.<sup>6</sup> EEM tracks the performance of the MSCI Emerging Markets Index, which is composed of approximately 800 component securities.<sup>7</sup> The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.<sup>8</sup> IWM tracks the performance of the Russell 2000 Index, which is composed of 2,000 small-cap domestic stocks.<sup>9</sup> EFA tracks the performance of MSCI EAFE Index, which has over 900 component securities.<sup>10</sup> The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.<sup>11</sup> EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and

---

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

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

<sup>7</sup> See [http://us.ishares.com/product\\_info/fund/overview/EEM.htm](http://us.ishares.com/product_info/fund/overview/EEM.htm).

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

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

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

<sup>11</sup> See <https://www.msci.com/eafe>.



mid-size companies in Brazil.<sup>12</sup> TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds.<sup>13</sup> QQQQ tracks the performance of the Nasdaq-100 Index, which is composed of 100 of the largest domestic and international nonfinancial companies listed on the Nasdaq Stock Market LLC (“Nasdaq”).<sup>14</sup> EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan.<sup>15</sup>

The Exchange represents that more than 50% of the weight of the securities held by the options subject to this proposal are also subject to a CSA.<sup>16</sup> Additionally, the component securities of the MSCI Emerging Markets Index on which EEM is based for which the primary market is in any one country that is not subject to a CSA do not represent 20% or more of the weight of the MSCI Emerging Markets Index.<sup>17</sup> Finally, the component securities of the MSCI Emerging Markets Index on which EEM is based, for which the primary market is in any two countries that are not subject to CSAs do not represent 33% or more of the weight of the MSCI Emerging Markets Index.<sup>18</sup>

---

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

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

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

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

<sup>16</sup> See Exchange Rule 502(h)(b)(2).

<sup>17</sup> See Exchange Rule 502(h)(b)(3).

<sup>18</sup> See Exchange Rule 502(h)(b)(4).

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

### The CBOE Analysis

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

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

<b>ETF</b>	<b>2017 ADV (Mil. Shares)</b>	<b>2017 ADV (option contracts)</b>	<b>Shares Outstanding (Mil.)</b>	<b>Fund Market Cap (\$Mil.)</b>
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
QQQQ	26.25	579,404	351.6	\$50,359.7

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

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

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

In support of its proposal to increase the position limits for EEM and IWM from 500,000 contracts to 1,000,000 contracts, CBOE also compared the trading characteristics of EEM and IWM to that of QQQQ, which currently has a position limit of 900,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for EEM was 52.12 million shares and IWM was 27.46 million shares compared to 26.25 million shares for QQQQ. The total shares outstanding for EEM are 797.4 million and for IWM are 253.1 million compared to 351.6 million for QQQQ. The fund

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

In support of its proposal to increase the position limits for FXI, EFA, EWZ, TLT, and EWJ from 250,000 contracts to 500,000 contracts, CBOE compared the trading characteristics of FXI, EFA, EWZ, TLT, and EWJ to that of EEM and IWM, both of which currently have a position limit of 500,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for FXI is 15.08 million shares, EFA is 19.42 million shares, EWZ is 17.08 million shares, TLT is 8.53 million shares, and EWJ is 6.06 million shares compared to 52.12 million shares for EEM and 27.46 million shares for IWM. The total shares outstanding for FXI is 78.6 million, EFA is 1178.4 million, EWZ is 159.4 million, TLT is 60 million, and EWJ is 303.6 million compared to 797.4 million for EEM and 253.1 million for IWM. The fund market cap for FXI is \$3,343.6 million, EFA is \$78,870.3 million, EWZ is \$6,023.4 million, TLT is

\$7,442.4 million, and EWJ is \$16,625.1 million compared to \$34,926.1 million for EEM and \$35,809.1 million for IWM.

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

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

---

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

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

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

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

---

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

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

CBOE stated that in proposing the increased position limits, the Exchange considered the availability of economically equivalent products and their respective position limits. For instance, some of the ETFs underlying options subject to the proposed rule change are based on broad-based indices that underlie cash settled options that are economically equivalent to the ETF options that are the subject of the proposed rule change and have no position limits. Other ETFs are based on broad-based indexes

that underlie cash-settled options with position limits reflecting notional values that are larger than the current position limits for ETF analogues (EEM, EFA). Where there was no approved index analogue, CBOE stated its belief, based on the liquidity, breadth and depth of the underlying market, that the index referenced by the ETF would be considered a broad-based index.<sup>22</sup> CBOE argued that if certain position limits are appropriate for the options overlying the same index or is an analogue to the basket of securities that the ETF tracks, then those same economically equivalent position limits should be appropriate for the option overlying the ETF. In addition, CBOE observed, the market capitalization of the underlying index or reference asset is large enough to absorb any price movements that may be caused by an oversized trade. Also, the Authorized Participant or issuer may look to the stocks comprising the analogous underlying index or reference asset when seeking to create additional ETF shares are part of the creation/redemption process to address supply and demand or to mitigate the price movement the price of the ETF. CBOE offered the following specific examples to illustrate:

QQQQ

For example, the PowerShares QQQ Trust or QQQQ is an ETF that tracks the Nasdaq 100 Index or NDX, which is an index composed of 100 of the largest non-financial securities listed on Nasdaq. Options on NDX are currently subject to no position limits but share similar trading characteristics as QQQQ. Based on QQQQ's

---

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



share price of \$154.54<sup>23</sup> and NDX's index level of 6,339.14, approximately 40 contracts of QQQQ equals one contract of NDX. Assume that NDX was subject to the standard position limit of 25,000 contracts for broad-based index options. Based on the above comparison of notional values, this would result in a position limit equivalent to 1,000,000 contracts for QQQQ as NDX's analogue. However, NDX is not subject to position limits and has an average daily trading volume of 15,300 contracts. QQQQ is currently subject to a position limit of 900,000 contracts but has a much higher average daily trading volume of 579,404 contracts. Furthermore, NDX currently has a market capitalization of \$17.2 trillion and QQQQ has a market capitalization of \$50,359.7 million, and the component securities of NDX, in aggregate, have traded an average of 440 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the QQQQ. The Commission has also approved no position limit for NDX, although it has a much lower average daily trading volume than its analogue, the QQQQ. Therefore, CBOE concluded and the Exchange agrees it was reasonable to increase the position limit for options on the QQQQ from 900,000 to 1,800,000 contracts.

### IWM

The iShares Russell 2000 ETF or IWM, is an ETF that also tracks the Russell 2000 Index or RUT, which is an index that is composed of 2,000 small-cap domestic companies in the Russell 3000 index. Options on RUT are currently subject to no position limits but share similar trading characteristics as IWM. Based on IWM's share price of \$144.77 and RUT's index level of 1,486.88, approximately 10 contracts of IWM

---

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

equals one contract of RUT. Assume that RUT was subject to the standard position limit of 25,000 contracts for broad-based index options under Exchange Rule 24.4(a). Based on the above comparison of notional values, this would result in a position limit equivalent to 250,000 contracts for IWM as RUT's analogue. However, RUT is not subject to position limits and has an average daily trading volume of 66,200 contracts. IWM is currently subject to a position limit of 500,000 contracts but has a much higher average daily trading volume of 490,070 contracts. The Commission has approved no position limit for RUT, although it has a much lower average daily trading volume than its analogue, the IWM. Furthermore, RUT currently has a market capitalization of \$2.4 trillion and IWM has a market capitalization of \$35,809.1 million, and the component securities of RUT, in aggregate, have traded an average of 270 million shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the IWM. Therefore, CBOE concluded and the Exchange agrees it is reasonable to increase the position limit for options on the IWM from 500,000 to 1,000,000 contracts.

#### EEM

EEM tracks the performance of the MSCI Emerging Markets Index or MXEF, which is composed of approximately 800 component securities following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Based on EEM's share price of \$47.06 and MXEF's index level of 1,136.45, approximately 24 contracts of EEM equals one contract of MXEF. MXEF is currently subject to the standard position limit of 25,000 contracts for broad-based index options. Based on the above comparison of

notional values, this would result in a position limit economically equivalent to 604,000 contracts for EEM as MXEF's analogue. However, MXEF has an average daily trading volume of 180 contracts. EEM is currently subject to a position limit of 500,000 contracts but has a much higher average daily trading volume of 287,357 contracts. Furthermore, MXEF currently has a market capitalization of \$5.18 trillion and EEM has a market capitalization of \$34,926.1 million, and the component securities of MXEF, in aggregate, have traded an average of 33.6 billion shares per day in 2017, both large enough to absorb any price movement caused by a large trade in the EEM. Therefore, based on the comparison of average daily trading volume, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on the IWM from 500,000 to 1,000,000 contracts.

#### EFA

EFA tracks the performance of MSCI EAFE Index or MXEA, which has over 900 component securities designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. Based on EFA's share price of \$69.16 and MXEA's index level of 1,986.15, approximately 29 contracts of EFA equals one contract of MXEA. MXEA is currently subject to the standard position limit of 25,000 contracts for broad-based index options. Based on the above comparison of notional values, this would result in a position limit economically equivalent to 721,000 contracts for EFA as MXEA's analogue. Furthermore, MXEA currently has a market capitalization of \$18.7 trillion and EFA has a market capitalization of \$78,870.3 million, and the component securities of MXEA, in aggregate, have traded an average of 4.6 billion shares per day in

2017, both large enough to absorb any price movement caused by a large trade in the EEM. However, MXEA has an average daily trading volume of 270 contracts. EFA is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 98,844 contracts. Based on the above comparisons, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on the EFA from 250,000 to 500,000 contracts.

#### FXI

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks. There is currently no index analogue for FXI approved for options trading. However, the FTSE China 50 Index currently has a market capitalization of \$1.7 trillion and FXI has a market capitalization of \$2,623.18 million, both large enough to absorb any price movement caused by a large trade in FXI. The components of the FTSE China 50 Index, in aggregate, have an average daily trading volume of 2.3 billion shares. FXI is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 15.08 million shares. Based on the above comparisons, CBOE believed, and that Exchange agrees, that it is reasonable to increase the position limit for options on the FXI from 250,000 to 500,000 contracts.

#### EWZ

EWZ tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil. There is currently no index analogue for EWZ approved for options trading. However, the MSCI Brazil 25/50 Index currently has a market capitalization of \$700 billion and EWZ has a market capitalization of \$6,023.4 million, both large enough to absorb any price movement caused by a large trade

in EWZ. The components of the MSCI Brazil 25/50 Index, in aggregate, have an average daily trading volume of 285 million shares. EWZ is currently subject to a position limit of 250,000 contracts but has a much higher average daily trading volume of 17.08 million shares. Based on the above comparisons, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on the EWZ from 250,000 to 500,000 contracts.

#### TLT

TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds. There is currently no index analogue for TLT approved for options trading. However, the U.S. Treasury market is one of the largest and most liquid markets in the world, with over \$14 trillion outstanding and turnover of approximately \$500 billion per day. TLT currently has a market capitalization of \$7,442.4 million, both large enough to absorb any price movement caused by a large trade in TLT. Therefore, the potential for manipulation will not increase solely due to the increase in position limits as set forth in the proposed rule change. Based on the above comparisons, CBOE believed and the Exchange agrees it is reasonable to increase the position limit for options on the TLT from 250,000 to 500,000 contracts.

#### EWJ

EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan. There is currently no index analogue for EWJ approved for options trading. However, the MSCI Japan Index has a market capitalization of \$3.5 trillion and EWJ has a market capitalization of \$16,625.1 million, and the component securities of the MSCI Japan Index, in aggregate, have traded an average of 1.1 billion

shares per day in 2017, both large enough to absorb any price movement caused by a large trade in EWJ. EWJ is currently subject to a position limit of 250,000 contracts and has an average daily trading volume of 6.6 million shares. Based on the above comparisons, CBOE believed and the Exchange agrees that it is reasonable to increase the position limit for options on EWJ from 250,000 to 500,000 contracts.

#### ISE Analysis and Conclusions

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

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

at other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity.

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

The Exchange believes that increasing the position limits for the options subject to this proposal would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in this product. Under the proposal, the reporting requirement for the above options would be unchanged. Thus, the Exchange would still require that each Member file with the Exchange the name, address and social security or tax identification number of any customer, as well as any Member, any general or special partner of the Member, any officer or director of the Member or any participant, as such, in any joint, group or syndicate account with the Member or with

any partner, officer or director thereof, who, on the previous business day held aggregate long or short positions of 200 or more options contracts of any single class of options traded on the Exchange. The report is also required to indicate for each such class of options contracts the number of options contracts comprising each such position and, in case of short positions, whether covered or uncovered. Additionally, Electronic Access Members that maintain an end of day position in excess of 10,000 non-FLEX equity options contracts on the same side of the market on behalf of its own account or for the account of a customer, are required to report whether such position is hedged and provide documentation as to how such position is hedged. This report is required at the time the subject account exceeds the 10,000 contract threshold and thereafter, for customer accounts, when the position increases by 2,500 contracts and for proprietary accounts when the position increases by 5,000 contracts. Finally, Members are also required to report promptly to the Exchange any instance in which the Member has reason to believe that a person included in Rule 415(a), acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to Rule 412.<sup>24</sup>

The Exchange believes that the existing surveillance procedures and reporting requirements at the Exchange, other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity. In addition, routine oversight inspections of the Exchange's regulatory programs by the Commission have not uncovered any material inconsistencies or shortcomings in the manner in which the Exchange's market surveillance is conducted. These procedures utilize daily

---

<sup>24</sup> See Exchange Rule 415 for reporting requirements.



monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and underlying stocks.<sup>25</sup>

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

The Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns that a member organization or its customer may try to maintain an inordinately large un-hedged position in the options subject to this proposal. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin and/or capital that a member organization must maintain for a large position held by itself or by its customer.<sup>27</sup> In addition, Rule 15c3-1<sup>28</sup> imposes a capital charge on member organizations to the extent of any margin deficiency resulting from the higher margin requirement.

---

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

<sup>26</sup> 17 CFR 240.13d-1.

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

<sup>28</sup> 17 CFR 240.15c3-1.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>29</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>30</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As noted above, the Commission has recently approved increasing position limits to the levels proposed herein on the same ETF options on the CBOE. The Exchange believes that the proposed position limits would continue to address potential manipulative activity while allowing for potential hedging activity for appropriate economic purposes.

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

---

<sup>29</sup> 15 U.S.C. 78f(b).

<sup>30</sup> 15 U.S.C. 78f(b)(5).

Increased position limits for select actively traded options, such as that proposed herein, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved, on a pilot basis, eliminating position limits for certain options.<sup>31</sup> Additionally, the Commission has approved similar proposed rule changes to increase position limits for options on highly liquid, actively-traded ETFs,<sup>32</sup> including a proposal to permanently eliminate the position and exercise limits for options overlaying the S&P 500 Index, S&P 100 Index, Dow Jones Industrial Average, Nasdaq 100 Index, and the Russell 2000(R) Index ("RUT").<sup>33</sup> In approving the permanent elimination of position and exercise limits for these index options, the Commission relied heavily upon the Exchange's surveillance capabilities, and the Commission expressed trust in the enhanced surveillance and reporting safeguards that the Exchange took in order to detect and deter possible manipulative behavior which might arise from eliminating position and exercise limits.<sup>34</sup> Furthermore, as described more fully above,

---

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

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

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

<sup>34</sup> Id.

options on other ETFs have the position limits proposed herein and those ETFs have trading characteristics and trading volumes that are similar to those of the ETFs subject to this proposed rule change.

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

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. On the contrary, the Exchange believes that the proposed rule change will result in additional opportunities to achieve the investment and trading objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general.

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

No written comments were either solicited or received.

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

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

---

<sup>35</sup>

Id.

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)(iii) of the Act<sup>36</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>37</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2018-39 on the subject line.

---

<sup>36</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>37</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Paper comments:

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

All submissions should refer to File Number SR-ISE-2018-39. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-ISE-2018-39 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>38</sup>

Eduardo A. Aleman  
Assistant Secretary

---

<sup>38</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed]. New text is underlined.

**Nasdaq ISE Rules**

\* \* \* \* \*

**Rule 412. Position Limits**

(a)-(f) No change.

***Supplementary Material to Rule 412***

.01 The position limits applicable to option contracts on the securities listed in the chart below are as follows:

Security Underlying Option	Position Limit
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depository Receipts® Trust (SPY)	None
The iShares® Russell 2000® [Index Fund]ETF (IWM)	[5] <u>1,000,000</u> contracts
The PowerShares QQQQ Trust (QQQQ)	[90] <u>1,800,000</u> contracts
The iShares MSCI Emerging Markets [Index Fund]ETF (EEM)	[5] <u>1,000,000</u> contracts
<u>iShares China Large-Cap ETF (FXI)</u>	<u>500,000 contracts</u>
<u>iShares MSCI EAFE ETF (EFA)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Brazil Capped ETF (EWZ)</u>	<u>500,000 contracts</u>
<u>iShares 20+ Year Treasury Bond Fund ETF (TLT)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Japan ETF (EWJ)</u>	<u>500,000 contracts</u>



---

Position Limits for SPY options are subject to a pilot program through July 12, 2018.

.02 -.03 No change.

\* \* \* \* \*

**Rule 414. Exercise Limits**

(a) – (c) No change.

***Supplementary Material to Rule 414***

.01 The exercise limits applicable to option contracts on the securities listed in the chart below is as follows:

Security Underlying Option	Position Limit
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depository Receipts® Trust (SPY)	None
The iShares® Russell 2000® [Index Fund]ETF (IWM)	[5]1,000,000 contracts
The PowerShares QQQQ Trust (QQQQ)	[9]1,800,000 contracts
The iShares MSCI Emerging Markets [Index Fund]ETF (EEM)	[5]1,000,000 contracts
<u>iShares China Large-Cap ETF (FXI)</u>	<u>500,000 contracts</u>
<u>iShares MSCI EAFE ETF (EFA)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Brazil Capped ETF (EWZ)</u>	<u>500,000 contracts</u>
<u>iShares 20+ Year Treasury Bond Fund ETF (TLT)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Japan ETF (EWJ)</u>	<u>500,000 contracts</u>

---

Exercise Limits for SPY options are subject to a pilot program through July 12, 2018.

\* \* \* \* \*