

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56656; File No. SR-NYSEArca-2007-94)

October 12, 2007

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto to Eliminate Position and Exercise Limits for Options on the Russell 2000 Index, and to Specify that Certain Reduced-Value Options on Broad-Based Security Indexes Have No Position and Exercise Limits

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 14, 2007, NYSE Arca, Inc. (“NYSE Arca” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by NYSE Arca. On October 1, 2007, NYSE Arca submitted Amendment No. 1 to the proposed rule change. The Exchange has filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

NYSE Arca proposes to amend its rules to eliminate the position and exercise limits for options on the Russell 2000 Index (“RUT”), and to specify that reduced-value options on broad-based security indexes for which full-value options have no position and exercise limits will

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

similarly have no position and exercise limits. The text of the proposed rule change is available at NYSE Arca, the Commission's Public Reference Room, and www.nysearca.com.

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

In its filing with the Commission, NYSE Arca 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. NYSE Arca 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

NYSE Arca proposes to amend Rules 5.15(a) and 5.17(a)(13) in order to: (1) eliminate position and exercise limits for options on RUT, a multiply listed and heavily traded broad-based security index; and (2) specify that reduced-value options on broad-based security indexes for which full-value options have no position limits will similarly have no position limits.

Eliminate Position and Exercise Limits for RUT Options

NYSE Arca presently trades options on one broad-based index, RUT. However, the Exchange believes that the circumstances and considerations that the Commission relied upon in approving the elimination of position and exercise limits for another heavily traded broad-based index options (e.g., NASDAQ-100 Index ("NDX"), listed on the Chicago Board Options Exchange ("CBOE"))⁵ equally apply to NYSE Arca's proposal to eliminate position and exercise limits for options on RUT. In addition, the Commission recently approved similar

⁵ See Securities Exchange Act Release No. 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (SR-CBOE-2005-41) ("NDX Approval Order").

proposals by CBOE and the American Stock Exchange LLC (“Amex”) to eliminate position and exercise limits for RUT options.⁶

In approving the elimination of position and exercise limits for NDX options on CBOE, the Commission considered the capitalization of this index and the deep and liquid markets for the securities underlying the index that significantly reduced the concerns of market manipulation or disruption in the underlying markets.⁷ The Commission also noted the active trading volume for options on the index. The Exchange believes that RUT shares these factors in common with NDX. As of July 31, 2007, the approximate market capitalization of NDX was \$2.28 trillion, the average daily trading volume (“ADTV”) for the component of NDX was 572 million shares and the ADTV for options on NDX was approximately 64,000 contracts per day. NYSE Arca believes that RUT has comparable characteristics. The market capitalization for RUT is \$1.73 trillion, the ADTV for the underlying securities is 535 million shares, and the ADTV for the option is approximately 79,000 contracts.

In approving the elimination of position and exercise limits for NDX, the Commission also noted that financial requirements imposed by the options exchanges and the Commission serve to address concerns that an exchange member, an Options Trading Permit (“OTP”) Holder⁸ in the case of NYSE Arca, or its customer, may try to maintain an inordinately large unhedged position in NDX options. These same financial requirements also apply to RUT

⁶ See Securities Exchange Act Release Nos. 56351 (September 4, 2007), 72 FR 51875 (September 11, 2007) (SR-Amex-2007-81); and 56350 (September 4, 2007), 72 FR 51878 (September 11, 2007) (SR-CBOE-2007-79) (collectively, “RUT Approval Orders”).

⁷ See NDX Approval Order, *supra* note 5.

⁸ OTP Holder is defined in NYSE Arca Rule 1.1(q). OTP Holders have the status of a “member” of the Exchange as that term is defined in Section 3 of the Act. See 15 U.S.C. 78c.

options. Under NYSE Arca rules, the Exchange also has the authority to impose additional margin upon accounts maintaining underhedged positions, and is further able to monitor accounts to determine when such action is warranted. As noted in the Exchange's rules, the clearing firm carrying such an account would be subject to capital charges under Rule 15c3-1 under the Act⁹ to the extent of any resulting margin deficiency.¹⁰

In approving the elimination of position and exercise limits for NDX, the Commission relied heavily on CBOE's ability to provide surveillance and reporting safeguards to detect and deter trading abuses arising from the elimination of position and exercise limits on the index. NYSE Arca represents that the current Exchange surveillance procedures are adequate to continue monitoring RUT options, once the position and exercise limits are eliminated. In addition, the Exchange intends to impose a reporting requirement on NYSE Arca OTP Holders and OTP Firms (other than NYSE Arca market-makers) that trade RUT options. This reporting requirement would require OTP Holders and OTP Firms who maintain in excess of 100,000 RUT option contracts on the same side of the market, for their own accounts or for the account of customers, to report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in a manner and form required by the Exchange's Options Surveillance Department. The Exchange would take prompt action, including timely communication with the Commission and other marketplace self-regulatory organizations responsible for oversight of trading in component stocks, should any unanticipated

⁹ 17 CFR 240.15c3-1.

¹⁰ See NYSE Arca Rule 5.17(a)(14).

adverse market effects develop.¹¹ The Exchange may also specify other reporting requirements, as well as the limit at which the reporting requirement may be triggered.

The Exchange believes that eliminating position and exercise limits for RUT options is consistent with approved rules relating to similar broad-based index products currently trading on other exchanges. The Exchange believes that eliminating the position and exercise limits for options on RUT will allow NYSE Arca OTP Holders and OTP Firms greater hedging and investment opportunities.

Elimination of Position Limits for reduced value Options on Broad-Based Indexes for which there are not Position and Exercise Limits for Full Value Options

The Exchange may list and trade reduced-value options on broad-based indexes for which the Exchange also lists and trades full-value options.¹² The Exchange proposes to amend Rule 5.15(a) to state that reduced-value options on broad-based security indexes for which full value options have no position and exercise limits will similarly have no position and exercise limits.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,¹³ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁴ in particular, in that it is designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices, 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

¹¹ Telephone conversation between Andrew Stevens, Assistant General Counsel, NYSE Arca, and Theodore S. Venuti, Special Counsel, Division of Market Regulation, Commission, on October 12, 2007.

¹² NYSE Arca does not presently list or trade reduced-value options.

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

public interest.

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 that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments on the proposed rule change were neither solicited nor received.

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

Because the forgoing rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁵ and Rule 19b-4(f)(6) thereunder.¹⁶

A proposed rule change filed under 19b-4(f)(6) normally may not become operative prior to 30 days after the date of filing.¹⁷ However, Rule 19b-4(f)(6)(iii)¹⁸ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay.

The Commission believes that waiving the 30-day operative delay is consistent with the

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6).

¹⁷ 17 CFR 240.19b-4(f)(6)(iii). In addition, Rule 19b-4(f)(6)(iii) requires that a self-regulatory organization submit to the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has requested the Commission to waive this five-day pre-filing notice requirement. The Commission hereby grants this request.

¹⁸ Id.

protection of investors and the public interest because such waiver will allow NYSE Arca members and their customers greater hedging and investment opportunities in RUT options without further delay. The Commission notes that it recently approved substantially similar proposals filed by Amex and CBOE.¹⁹ The Commission believes that NYSE Arca's proposal to eliminate position and exercise limits for RUT options raises no new issues. For these reasons, the Commission designates the proposed rule change to be operative upon filing with the Commission.²⁰

At any time within 60 days of the filing of such proposed rule change the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors or otherwise in furtherance of the purposes of the Act.²¹

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

¹⁹ See RUT Approval Orders, *supra* note 6.

²⁰ For the purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²¹ 15 U.S.C. 78s(b)(3)(C). For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposal, the Commission considers the period to commence on October 1, 2007, the date on which the Exchange submitted Amendment No. 1.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2007-94 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSEArca-2007-94. 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 inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of NYSE Arca. 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-NYSEArca-2007-94 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²²

Florence E. Harmon
Deputy Secretary

²² 17 CFR 200.30-3(a)(12).