SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; International Securities Exchange, LLC; Order Granting Accelerated Approval of Proposed Rule Changes To Permit the Minimum Price Variation for Mini Options To Be the Same as Permitted for Standard Options on the Same Underlying Security

March 12, 2013.

I. Introduction

On January 31, 2013, Chicago Board Options Exchange, Incorporated ("CBOE") and on February 6, 2013, International Securities Exchange, LLC ("ISE") and together with CBOE, "Exchanges") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") and Rule 19b–4 thereunder, proposed rule changes to permit the minimum price variation for Mini Options to be the same as the minimum price variation for standard options on the same underlying security. CBOE’s proposed rule change was published for comment in the Federal Register on February 14, 2013, and the Commission received three comment letters on the proposal. On March 8, 2013, CBOE submitted a response letter. ISE’s proposed rule change was published for comment in the Federal Register on February 20, 2013, and the Commission received one comment letter on the proposal. The Commission is approving the Exchanges’ proposals on an accelerated basis.

II. Description of the Proposed Rule Changes

CBOE and ISE currently have rules that provide for the listing and trading of options ("Mini Options") that deliver 10 physical shares of SPDR S&P 500 ("SPY"), Apple Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Google Inc. ("GOOG"), and Amazon.com, Inc. ("AMZN"). The Exchanges now propose to amend their rules to provide that the minimum price variation for bids and offers for Mini Options be the same as the minimum price variation for standard options on the same underlying security. For example, if standard options on a security participate in the Penny Pilot Program, Mini Options on the same underlying security would be quoted in the same minimum increments (i.e., $0.01 for series that are quoted at less than $3 per contract and $0.05 for series that are quoted at $3 per contract or greater).

III. Discussion and Commission Findings

The Commission finds that the proposed rule changes filed by the Exchanges are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange. Specifically, the Commission finds that the proposed rule changes are consistent with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, 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.

The Commission believes that permitting Mini Options on SPY, AAPL, GLD, GOOG, and AMZN to have the same minimum price variation as standard options on the same underlying securities, in the manner proposed by the Exchanges, is consistent with the Act. In addition,
the Commission believes that it is important to clearly establish the minimum price variation for Mini Options prior to the anticipated commencement of trading on March 18, 2013.

Commenters offer strong support for the Exchanges’ proposals.16 In their letters, SIFMA and LiquidPoint state that they strongly agree with CBOE’s request to mimic the pricing convention of standard options with mini-option contract pricing and note that they believe it is appropriate to allow penny-pricing for Mini Options on securities for which standard options already trade in pennies, specifically SPY, AAPL, GLD, and AMZN.17

In its letter, SIFMA notes that given the significant liquidity in the market for the standard options on SPY, AAPL, GLD, GOOG, and AMZN, “investor confusion could be profound if the standard and mini-options are not aligned with respect to the minimum price variation.”18 LiquidPoint also expressed similar concern in its letter.19 Further, in its letter, TD Ameritrade states that “[i]nvestor confusion would invariably result if Mini Options did not retain the important characteristics, such as the trading increments,” of the standard options on the same underlying security.20 The Commission believes that the same minimum price variation for Mini Options as standard options on the same underlying security should help prevent investor confusion.

Maintaining consistency between Mini Options and standard options as to the minimum price variation may also provide additional market benefits. In this regard, the Commission notes that, in its proposal, CBOE states its belief that matched pricing for Mini Options and standard options on the same underlying security would attract additional liquidity providers who would make markets in these options and that the ability to quote Mini Options and standard options on the same underlying security in the same minimum increments would hopefully result in more efficient pricing via arbitrage and possible price improvement in both contracts on the same underlying security.21 SIFMA and LiquidPoint also note that penny pricing for Mini Options “would benefit anticipated users by providing additional price points, particularly as the product is intended to be an investment tool with more affordable and realistic prices for the average retail investor.”22 Further, TD Ameritrade states that the proposal will allow market makers to “provide better fills to investors by quoting and trading within a lesser spread than the existing Rule 710 allows.”23

The Commission notes that the proposed minimum price variation treatment is also consistent with the current operation of member firms’ systems. Specifically, in its proposal, CBOE states that it has polled its member firms with customers who would be potential users of Mini Options, and these firms have indicated a preference that the premium pricing for Mini Options match what is currently permitted for standard options on the same underlying securities.24 CBOE states that its firms’ systems are configured using the “root symbol” of an underlying security and cannot differentiate, for purposes of minimum price variations, between contracts on the same underlying security.25 In its letter, SIFMA also notes that its members’ systems are programmed using “root symbols,” and would not be able to assign different minimum price variations to Mini Options and standard options on the same underlying security.26 Further, LiquidPoint notes that its systems are programmed such that it would be difficult and confusing to systems users to assign different minimum price variations to Mini Options and standard options on the same underlying security.27

Lastly, the Commission notes that, with respect to the impact of the proposals on the Exchanges’ systems capacity, each of the Exchanges represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with this proposal.28 The Exchanges state that they do not believe that the increased traffic will become unmanageable because Mini Options are limited to a fixed number of underlying securities.29

Accordingly, for the reasons stated above, and in consideration of the anticipated Mini Options launch date of March 18, 2013, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,30 for approving the Exchanges’ proposals prior to the 30th day after the publication of the notices in the Federal Register.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,31 that the proposed rule changes (SR–CBOE–2013–016; SR–ISE–2013–08), be, and hereby are, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.

Kevin M. O’Neill,
Deputy Secretary.

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SOCIAL SECURITY ADMINISTRATION
[Docket No. SSA–2012–0048]

Service Delivery Plan; Correction

AGENCY: Social Security Administration.

ACTION: Notice; request for comments; Correction.

SUMMARY: The Social Security Administration published a document in the Federal Register of March 12, 2013, in FR Doc. 2013–05595, on page 15797, in the third column; in the SUMMARY caption insert the following hyper-links. In the first sentence after the words, “Service Delivery Plan (SDP) insert http://www.ssa.gov/open/SDP. In

21 See CBOE Notice, supra note 3, at 10673.
22 See also SIFMA Letter, supra note 4, at 2 and LiquidPoint Letter, supra note 4, at 2.
23 See TD Ameritrade Letter, supra note 7, at 1.
24 See CBOE Notice, supra note 3, at 10672.
25 See id.
26 See SIFMA Letter, supra note 4, at 2.
27 See CBOE Notice, supra note 3, at 10673.
28 See CBOE Notice, supra note 3, at 10673 and ISE Notice, supra note 6, at 11922.
29 See CBOE Notice, supra note 3, at 10673 and ISE Notice, supra note 6, at 11922.