

However, as the Exchange noted in its proposal, due to the prohibition on \$1 strike price intervals within \$0.50 of an existing strike price, the existence of series with \$2.50 interval strikes for classes selected for the \$1 Strike Price Program could lead to discontinuities in strike prices and a lack of parallel strikes in different expiration months of the same issue. For example, if a \$12.50 strike series was open in a class selected for the \$1 Strike Price Program, the Exchange would not be able to list series with a \$12 or \$13 strike, potentially resulting in sequence of strike prices at irregular intervals (*i.e.*, \$10, \$11, \$12.50, \$14, and \$15).

To replace these now-forbidden \$2.50 interval strikes, the Exchange proposes to allow the listing of one additional series within each natural \$5 interval, as follows. The Exchange proposed to permit the listing of a series with a strike \$2 *above* the \$5-interval strike for each such \$5-interval strike above the price of the underlying security at the time of listing. Conversely, the Exchange's proposal would permit the listing of a series with a strike \$2 *below* the \$5-interval strike for each such \$5-interval strike below the price of the underlying security at the time of listing. For example, if the underlying security was trading at \$19, the Exchange could list a \$27 strike between the \$25 and the \$30 strikes, and a \$32 strike between the \$30 and \$35 strikes; as well as a \$13 strike between the \$10 and \$15 strikes, and an \$8 strike between the \$10 and \$15 strikes. The Exchange also notes that each such additional series may be listed only if such listing is consistent with the Options Listing Procedures Plan ("OLPP") Provisions in Rule 6.4A.<sup>7</sup> The foregoing provisions would apply to all classes selected for the \$1 Strike Price Program, both with respect to standard and long-term options. In addition, since series with \$1-interval strikes are not permitted for most long-term options, the proposal would allow the Exchange to list the long-term strike that is \$2 above the \$5-interval just below the underlying price at the time of listing. For example, if the underlying

stocks, provided the \$1 intervals are not within \$0.50 of an existing series with a \$2.50 strike price. See Rule 6.4 Commentary .04(c). This provision would not change under the current proposal.

<sup>7</sup> Rule 6.4A codifies the limitation on strike price ranges outlined in the OLPP, which, except in limited circumstances, prohibits options series with an exercise price more than 100% above or below the price of the underlying security if that price is \$20 or less. If the price of the underlying security is greater than \$20, an exchange may not list new options series with an exercise price more than 50% above or below the price of the underlying security.

security is trading at \$21.25, this provision would allow the Exchange to add a \$22 strike (\$2 above the \$20 strike) for the long-term option series.

In support of its proposal, the Exchange stated that the proposed rule change seeks to reduce investor confusion resulting from discontinuous strike prices that has arisen in the operation of the \$1 Strike Price Program, by providing a consistent application of strike price intervals for issues in the \$1 Strike Price Program.

The Exchange further represented that it has the necessary systems capacity to support the potential increase in new options series that will result from the proposed changes to the \$1 Strike Price Program.

### III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>8</sup> Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>9</sup> which requires, among other things, that the rules of a national securities exchange be 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 public interest.

As the Exchange notes, the proposal is intended to reduce investor confusion resulting from the operation of the \$1 Strike Price Program by reducing the occurrences of discontinuities in strike prices and non-parallel strikes in different expiration months of the same issue. The Commission believes that the proposal strikes a reasonable balance between the Exchange's desire to accommodate market participants and the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes and market fragmentation. The Commission expects the Exchange to monitor the trading and quotation volume associated with the additional options series listed as a result of this proposal and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRAs, and vendors' automated systems.

<sup>8</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

In approving this proposal, the Commission notes that Exchange has represented that it has the necessary systems capacity to support the potential increase in new options series that will result from the proposed changes to the \$1 Strike Price Program.

### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>10</sup> that the proposed rule change (SR-NYSEArca-2010-106) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

**Elizabeth M. Murphy,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-63774; File No. SR-BX-2011-006]

### Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding the Listing of \$1 Strike Prices on the Boston Options Exchange Facility

January 25, 2011.

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 January 21, 2011, NASDAQ OMX BX, Inc. (the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II 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 the Rules of the Boston Options Exchange Group, LLC ("BOX") regarding the listing of \$1 strike prices. The text of the proposed rule change is available from the principal office of the Exchange, on the Commission's Web site at <http://www.sec.gov>, at the Commission's Public Reference Room, and also on the Exchange's Internet Web site at <http://www.bosopt.com>.

<sup>10</sup> 15 U.S.C. 78s(b)(2).

<sup>11</sup> 17 CFR 200.30-3(a)(12).

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

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

*nasdaqomxbx.cchwallstreet.com/  
NASDAQOMXBX/Filings/.*

## 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 self-regulatory organization 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 self-regulatory organization 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

The Exchange proposes to amend Supplementary Material .02 to Chapter IV, Section 6 (Series of Options Contracts Open for Trading) of the BOX Trading Rules to improve the operation of the \$1 Strike Price Program.

Currently, the \$1 Strike Price Program only allows the listing of new \$1 strikes within \$5 of the previous day's closing price. In certain circumstances this has led to situations where there are no at-the-money \$1 strikes for a day, despite significant demand. For instance, on November 15, 2010, the underlying shares of Ipsilon Systems Inc. opened at \$33.83. It had closed the previous trading day at \$26.29. Options were available in \$1 intervals up to \$31, but because of the restriction to only listing within \$5 of the previous close, BOX was not able to add \$32, \$33, \$34, \$36, \$37 or \$38 strikes during the day.

The Exchange proposes that \$1 interval strike prices be allowed to be added immediately within \$5 of the official opening price in the primary listing market. Thus, on any day, \$1 Strike Program strikes may be added within \$5 of either the opening price or the previous day's closing price.

On occasion, the price movement in the underlying security has been so great that listing within \$5 of either the previous day's closing price or the day's opening price will leave a gap in the continuity of strike prices. For instance, if an issue closes at \$14 one day, and the next day opens above \$27, the \$21 and \$22 strikes will be more than \$5 from either benchmark. The Exchange proposes that any such discontinuity be avoided by allowing the listing of all \$1

Strike Program strikes between the closing price and the opening price.

Additionally, issues that are in the \$1 Strike Price Program may currently have \$2.50 interval strike prices added that are more than \$5 from the underlying price or are more than a nine months to expiration (long-term options series). In such cases, the listing of a \$2.50 interval strike may lead to discontinuities in strike prices and also a lack of parallel strikes in different expiration months of the same issue. For instance, under the current rules, BOX may list a \$12.50 strike in a \$1 Strike Program issue where the underlying price is \$24. This allowance was provided to avoid too large of an interval between the standard strike prices of \$10 and \$15. The unintended consequence, however, is that if the underlying price should decline to \$16, BOX would not be able to list a \$12 or \$13 strike. If the underlying stayed near this level at expiration, a new expiration month would have the \$12 and \$13 strike but not the \$12.50, leading to a disparity in strike intervals in different months of the same option class. This has also led to investor confusion, as they regularly request the addition of inappropriate strikes so as to roll a position from one month to another at the same strike level.

To avoid this problem, the Exchange proposes to prohibit \$2.50 interval strikes below \$50 in all \$1 Strike Price Program issues, including long term option series. At each standard \$5 increment strike more than \$5 from the price of the underlying security, BOX proposes to list the strike \$2 above the standard strike for each interval above the price of the underlying security, and \$2 below the standard strike, for each interval below the price of the underlying security, provided it meets the Options Listing Procedures Plan ("OLPP") Provisions in Chapter IV, Section 6(b) of the BOX Rules.<sup>3</sup> For instance, if the underlying security was trading at \$19, BOX could list, for each month, the following strikes: \$3, \$5, \$8, \$10, \$13, \$14, \$15, \$16, \$17, \$18, \$19, \$20, \$21, \$22, \$23, \$24, \$25, \$27, \$30, \$32, \$35, and \$37.

Instead of \$2.50 strikes for long-term options, the Exchange proposes to list one long-term \$1 Strike option series strike in the interval between each

<sup>3</sup> Chapter IV, Section 6(b) of the BOX Rules codifies the limitation on strike price ranges outlined in the OLPP, which, except in limited circumstances, prohibits options series with an exercise price more than 100% above or below the price of the underlying security if that price is \$20 or less. If the price of the underlying security is greater than \$20, BOX shall not list new options series with an exercise price more than 50% above or below the price of the underlying security.

standard \$5 strike, with the \$1 Strike being \$2 above the standard strike price for each interval above the price of the underlying security, and \$2 below the standard strike price, for each interval below the price of the underlying security. In addition, BOX may list the long-term \$1 strike which is \$2 above the standard strike just below the underlying price at the time of listing, and may add additional long-term options series strikes as the price of the underlying security moves, consistent with the OLPP. For instance, if the underlying is trading at \$21.25, long-term strikes could be listed at \$15, \$18, \$20, \$22, \$25, \$27, and \$30. If the underlying subsequently moved to \$22, the \$32 strike could be added. If the underlying moved to \$19.75, the \$13, \$10, \$8, and \$5 strikes could be added.

The Exchange also proposes that additional long-term option strikes may not be listed within \$1 of an existing strike until less than nine months to expiration.

Finally, the Exchange represents that it has the necessary systems capacity to support the small increase in new options series that will result from these changes to the \$1 Strike Price Program.

#### 2. Statutory Basis

The Exchange believes that this proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 ("Act"),<sup>4</sup> in general, furthers the objectives of Section 6(b)(5) of the Act<sup>5</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, 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. In particular, the proposed rule change seeks to reduce investor confusion and address issues that have arisen in the operation of the \$1 Strike Price Program by providing a consistent application of strike price intervals for issues in the \$1 Strike Price Program. Moreover, the Exchange believes the proposed rule change would benefit investors by giving them more flexibility to closely tailor their investment decisions. While amending the \$1 Strike Program to allow additional strike prices will generate additional quote traffic, BOX does not believe that this increased traffic will result in a material proliferation of additional series because it will affect a limited number of classes and BOX does

<sup>4</sup> 15 U.S.C. 78f(b).

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

not believe that the additional price points will result in fractured liquidity.

#### *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.

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

The Exchange has neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and, by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>6</sup> and Rule 19b-4(f)(6) thereunder.<sup>7</sup>

The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest because the proposal is substantially similar to that of another exchange that has been approved by the Commission.<sup>8</sup> Therefore, the Commission designates the proposal operative upon filing.<sup>9</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 necessary or appropriate in the public interest, for the protection of

investors, or otherwise in furtherance of the purposes of the Act.

### 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-BX-2011-006 on the subject line.

#### *Paper Comments*

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

All submissions should refer to File Number SR-BX-2011-006. 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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of 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-BX-2011-006 and should be submitted on or before February 22, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

Elizabeth M. Murphy,

Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-63777; File No. SR-Phlx-2010-157]

### Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, Relating to Complex Orders

January 26, 2011.

#### I. Introduction

On November 29, 2010, NASDAQ OMX PHLX LLC ("Phlx" or the "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b- thereunder,<sup>2</sup> a proposed rule change to amend the rules governing the trading of Complex Orders on the Phlx's electronic options trading platform, Phlx XL II, to, among other things: (i) Permit Complex Orders with up to six components, including the underlying stock or Exchange Traded Fund Share ("ETF"); (ii) establish a Do Not Auction ("DNA") designation for Complex Orders; (iii) add a definition of conforming ratio; (iv) provide priority rules for Complex Orders traded on Phlx XL II; and (v) provide for the communication of the stock or ETF component of a Complex Order by the Exchange to Nasdaq Options Services LLC ("NOS"), the Phlx's affiliated broker-dealer, for execution. The Exchange filed Amendment No. 1 to the proposal on December 6, 2010.<sup>3</sup> The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on December 15, 2010.<sup>4</sup> The Exchange filed Amendment No. 2 to the proposal on January 11,

<sup>10</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Amendment No. 1 revises Phlx Rule 1080, Commentary .08(a)(i), to indicate that member organizations submitting Complex Orders with a stock/ETF component represent that such orders comply with the qualified contingent trade exemption from Rule 611(a) of Regulation NMS under the Exchange Act.

<sup>4</sup> See Securities Exchange Act Release No. 63599 (December 9, 2010), 75 FR 78320 ("Notice").

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>7</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's 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 Commission has waived the five-day pre-filing requirement in this case.

<sup>8</sup> See Securities Exchange Act Release No. 63773 (January 25, 2011) (SR-NYSEAmex-2010-109). See also Securities Exchange Act Release No. 63770 (January 25, 2011) (SR-NYSEArca-2010-106).

<sup>9</sup> For 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).