

general, and with Section 6(b)(5) of the Act,<sup>6</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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 proposed rule change makes a minor clerical change to an existing Nasdaq rule.

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

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

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

Written comments were neither solicited nor received.

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

Pursuant to Section 19(b)(3)(A) of the Act<sup>7</sup> and Rule 19b-4(f)(3) thereunder,<sup>8</sup> Nasdaq has designated this proposal as one that is concerned solely with the administration of the self-regulatory organization. Accordingly, Nasdaq believes that its proposal should become immediately effective.

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-NASDAQ-2010-146 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-NASDAQ-2010-146. 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-NASDAQ-2010-146 and should be submitted on or before December 15, 2010.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**Florence E. Harmon,**  
*Deputy Secretary.*

[FR Doc. 2010-29612 Filed 11-23-10; 8:45 am]

**BILLING CODE 8011-01-P**

<sup>9</sup> 17 CFR 200.30-3(a)(12).

## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-63339; File No. SR-Phlx-2010-158]

### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by NASDAQ OMX PHLX, Inc. Relating to a \$5 Strike Price Program**

November 18, 2010.

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 November 12, 2010, NASDAQ OMX PHLX LLC ("Phlx" 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 Commentary .05 to Exchange Rule 1012, Series of Options Open for Trading, specifically Commentary .05(c) to allow the Exchange to list and trade series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks.

The text of the proposed rule change is available on the Exchange's Web site at <http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, at the principal office of the Exchange, on the Commission's Web site at <http://www.sec.gov>, 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.

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

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f)(3).

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

1. Purpose

The purpose of this proposed rule change is to modify Commentary .05 to Exchange Rule 1012 to allow the Exchange to list and trade series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks ("5 Strike Price Program") to provide investors and traders additional opportunities and strategies to hedge high priced securities.

Currently, Exchange Rule 1012 at Commentary .05 permits strike price intervals of \$10 or greater where the strike price is \$200 or more,<sup>3</sup> except the Exchange may select up to 46 options classes on individual stocks for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50 (the "\$2.50 Strike Price Program"). In addition to those options selected by the Exchange, the strike price interval may be \$2.50 in any multiply-traded option once another exchange trading that option selects such option.<sup>4</sup>

The Exchange is proposing to add the proposed 5 Strike Price Program as an exception to the \$10 or greater program in addition to the \$2.50 Strike Price Program. The proposal would allow the Exchange to list series in intervals of \$5 or greater where the strike price is more

<sup>3</sup> Commentary .05 also permits strike price intervals of \$5.00 or greater where the strike price is greater than \$25 but less than \$200; and \$2.50 or greater where the strike price is \$25 or less.

<sup>4</sup> Initially adopted in 1995 as a pilot program, the pilot \$2.50 Strike Price Program allowed options exchanges to list options with \$2.50 strike price intervals for options trading at strike prices greater than \$25 but less than \$50 on a total of up to 100 option classes. See Securities Exchange Act Release No. 35993 (July 19, 1995), 60 FR 38073 (July 25, 1995) (SR-Phlx-95-08). In 1998, the pilot program was permanently approved and expanded to allow the options exchanges to select up to 200 option classes for the \$2.50 Strike Price Program. See Securities Exchange Act Release No. 40662 (November 12, 1998), 63 FR 64297 (November 19, 1998) (SR-Phlx-98-26). Of the 200 options classes eligible for the \$2.50 Strike Price Program, 46 have been allocated to Phlx. With the expansion of the \$2.50 Strike Price Program to options with strike prices below \$75, for example, if an option class has been selected as part of the \$2.50 Strike Price Program, and the underlying stock closed at \$48.50 in its primary market, the Exchange may list options with strike prices of \$52.50 and \$57.50 on the next business day; and if an underlying security closed at \$54, the Exchange may list options with strike prices of \$52.50, \$57.50, and \$62.50 on the next business day. Moreover, an option class remains in the \$2.50 Strike Price Program until the Exchange otherwise designates and sends a decertification notice to the Options Clearing Corporation. See Securities Exchange Act Release No. 55338 (February 23, 2007), 72 FR 9371 (March 1, 2007) (SR-Phlx-2007-04).

than \$200 in up to five (5) option classes on individual stocks.

The Exchange believes the \$5 Strike Price Program would offer investors a greater selection of strike prices at a lower cost. For example, if an investor wanted to purchase an option with an expiration of approximately one month, a \$5 strike interval could offer a wider choice of strike prices, which may result in reduced outlays in order to purchase the option. By way of illustration, using Google, Inc. ("GOOG") as an example, if GOOG would trade at \$610<sup>5</sup> with approximately one month remaining until expiration, the front month (one month remaining) at-the-money call option (the 610 strike) would trade at approximately \$17.50 and the next highest available strike (the 620 strike) would trade at approximately \$13.00. By offering a 615 strike an investor would be able to trade a GOOG front month call option at approximately \$15.25, thus providing an additional choice at a different price point.

Similarly, if an investor wanted to hedge exposure to an underlying stock position by selling call options, the investor may chose an option term with two months remaining until expiration. An additional \$5 strike interval could offer additional and varying yields to the investor. For example if Apple, Inc. ("AAPL") would trade at \$310<sup>6</sup> with approximately two months remaining until expiration, the second month (two months remaining) at-the-money call option (the 310 strike) would trade at approximately \$14.50 and the next highest available strike (the 320 strike) would trade at \$9.90. The 310 strike would yield a return of 4.67% and the 320 strike would yield a return of 3.20%. If the 315 strike were available, that series would be priced at approximately \$12.20 (a yield of 3.93%) and would minimize the risk of having the underlying stock called away at expiration.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading of classes on individual stocks 5 Strike Price Program.

The proposed 5 Strike Price Program would provide investors increased opportunities to improve returns and

<sup>5</sup> The prices listed in this example are assumptions and not based on actual prices. The assumptions are made for illustrative purposes only using the stock price as a hypothetical.

<sup>6</sup> *Id.*

manage risk in the trading of equity options that overlie high priced stocks. In addition, the proposed 5 Strike Price Program would allow investors to establish equity options positions that are better tailored to meet their investment, trading and risk management requirements.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>8</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. The Exchange believes the 5 Strike Price Program proposal would provide the investing public and other market participants increased opportunities because a \$5 series in high priced stocks would provide market participants additional opportunities to hedge high priced securities. This would allow investors to better manage their risk exposure. Moreover, the Exchange believes the proposed 5 Strike Price Program would benefit investors by giving them more flexibility to closely tailor their investment decisions in a greater number of securities.

*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*

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) By order approve or disapprove such proposed rule change, or (b) institute proceedings

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

to determine whether the proposed rule change should be 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-Phlx-2010-158 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-Phlx-2010-158. 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-Phlx-2010-158 and should be submitted on or before December 15, 2010.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-63338; File No. SR-NYSEArca-2010-99]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Expanding the Delta Hedging Exemption Available for Equity Options Position Limits and Adopting a Delta Hedging Exemption From Certain Index Options Position Limits

November 18, 2010.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 5, 2010, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") 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 self-regulatory organization. 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 (i) expand the delta hedging exemption available for equity options position limits and (ii) adopt a delta hedging exemption from certain index options position limits. The text of the proposed rule change is available at the Exchange, the Commission's Public Reference Room, on the Commission's Web site at <http://www.sec.gov>, and <http://www.nyse.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, 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 Exchange has prepared summaries, set forth in Sections A, B and C below, of the most significant parts of such statements.

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

##### 1. Purpose

Expansion of Delta-Based Equity Hedge Exemption

On February 5, 2008,<sup>3</sup> the Exchange submitted a proposed rule change with the Commission establishing an exemption from equity options position and exercise limits for positions held by Exchange OTP Holders, OTP Firms, and certain of their affiliates, that are "delta neutral"<sup>4</sup> under a "permitted pricing model,"<sup>5</sup> subject to certain conditions ("Exemption"). The Exchange is proposing to amend certain of its rules to expand its exemption from equity options position and exercise limits and adopt a delta hedging exemption from certain index options position limits.<sup>6</sup>

The "options contract equivalent of the net delta" of a hedged equity option position is subject to the position limits under Rule 6.8, subject to the availability of other exemptions.<sup>7</sup>

<sup>3</sup> See Securities Exchange Act Release No. 57358 (February 20, 2008), 73 FR 11173 (February 29, 2008) (SR-NYSEArca-2008-17).

<sup>4</sup> The term "delta neutral" is defined in Rule 6.8, Commentary .07(iii)(a) as referring to an equity option position that is hedged, in accordance with a permitted pricing model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position.

<sup>5</sup> Permitted pricing model is defined in Rule 6.8, Commentary .07(iii)(c).

<sup>6</sup> The amendments proposed herein are similar to changes approved for the Chicago Board Options Exchange ("CBOE"). See Securities Exchange Act Release No. 62190 (May 27, 2010), 75 FR 31826 (June 4, 2010) (SR-CBOE-2010-021). See also Securities Exchange Act Release No. 56970 (December 14, 2007), 72 FR 72428 (December 20, 2007) (SR-CBOE-2007-099). The exemption was extended to certain customers whose accounts are carried by a member. See Securities Exchange Act Release No. 60555 (August 21, 2009), 74 FR 43741 (August 27, 2009) (SR-CBOE-2009-039). This proposed rule filing is being done pursuant to an industry-wide initiative, under the auspices of the Intermarket Surveillance Group ("ISG"), to establish comparable delta-hedge exemption rules among exchanges.

<sup>7</sup> The term "options contract equivalent of the net delta" is defined in Rule 6.8, Commentary .07(iii)(b) as the net delta divided by the number of shares underlying the option contract. The term "net delta" is defined in the same rule to mean, at any time, the number of shares (either long or short) required

Continued

<sup>9</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.