SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63914; File No. SR-Phlx-2011-15)

February 15, 2011

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by NASDAQ OMX PHLX LLC to Expand the $2.50 Strike Price Program

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 February 2, 2011, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission (the "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, pursuant to Section 19(b)(1) of the Act[3] and Rule 19b-4 thereunder,[4] proposes to amend Exchange Rule 1012, Series of Options Open for Trading, to expand the $2.50 Strike Price Program.[5]

The text of the proposed rule change is available on the Exchange's website at http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLX/Filings/, at the principal office

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(1).

4 17 CFR 240.19b-4.

5 See Securities Exchange Act Release No. 33063 (October 18, 1993), 58 FR 54619 (October 18, 1993) (SR-Phlx-93-18) (a rule change to list strike price intervals of $2.50 or greater for individual stock options). See also Securities Exchange Act Release Nos. 52961 (December 15, 2005), 70 FR 76095 (December 15, 2005) (SR-Phlx-2005-77) (a rule change to allow list options with $2.50 strike price intervals for options with strike prices between $50 and $75); and 55338 (February 23, 2007), 72 FR 9371 (March 1, 2007) (SR-Phlx-2007-04) (a rule change to list LEAPS at $2.50 strike price intervals).

of the Exchange, at the Commission's Public Reference Room, and on the Commission's website at www.sec.gov.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this proposed rule change is to expand the current $2.50 Strike Price Program ("Program")[6] to permit the listing of options with $2.50 strike price intervals for options with strike prices between $50 and $100, provided the $2.50 strike price intervals are no more than $10 from the closing price of the underlying stock in the primary market.[7]

---

6 Initially adopted in 1995 as a pilot program, the options exchanges at that time were permitted to list options with $2.50 strike price intervals up to $50 on a total of up to 100 option classes. In 1998, the pilot program was expanded and permanently approved to allow the options exchanges collectively to select up to 200 option classes on which to list options with $ 2.50 strike price intervals up to $ 50. Of the current 200 options classes eligible for the Program, 46 have been allocated to the Exchange. In addition, each options exchange is permitted to list options with $2.50 strike price intervals on any option class that another options exchange selects under its Program. See Securities Exchange Act Release Nos. 35993 (July 19, 1995), 60 FR 38073 (July 25, 1995) (approving File Nos. SR-Phlx-95-08, SR-Amex-95-12, SR-PSE-95-07, SR-CBOE-95-19, and SR-NYSE-95-12); and 40662 (November 12, 1998), 63 FR 64297 (November 19, 1998) (approving File Nos. SR-Amex-98-21, SR-CBOE-98-29, SR-PCX-98-31, and SR-Phlx-98-26).

7 The term "primary market" is defined in Exchange Rule 1000 in respect of an underlying stock or exchange-traded fund share as the principal market in which the underlying

Additionally, the Exchange proposes to increase the number of option classes on individual stocks for which the intervals of strike prices will be $2.50 to 60 options classes.

Currently, Exchange Rule 1012 at Commentary .05 permits the listing of options with $2.50 strike price intervals for options with strike prices between $50 and $75.[8] Specifically, the Exchange proposes to amend Commentary .05 to Exchange Rule 1012 to amend the current text.

For example, consider a hypothetical where Caterpillar, Inc. ("CAT") was trading at $81. With approximately one month remaining until expiration, and with a front month at-the-money put option (the 80 strike) trading at approximately $1.30, the investor would be able to purchase a $77.50 strike put at an estimated $.60 per contract. Today, the next available strike of a one month put option is the 75 strike. While the 75 strike put would certainly trade at a lesser price than the 80 strike put,[9] the protection offered would only take effect with a 7.40% decline in the market as opposed to a 4.30% decline in the market. The additional choice would provide the investor an additional to hedge exposure (the opportunity to hedge with a reduced outlay) and thereby minimize risk if there were a decline in the stock price of CAT.

Another example would be if an investor desired to sell call options to hedge the exposure of an underlying stock position and enhance yield. Consider a hypothetical where CAT was trading at $81 and the second month (two months remaining) of a recently out-of-the-money call option (the 85 strike) was trading at approximately $2.35. If the investor where to sell the 85 call against an existing stock position, the investor could yield a return of approximately 2.90%

---

stock or exchange-traded fund share is traded.

8 Commentary .05 of Exchange Rule 1012 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 and $10 or greater where the strike price is $200 or more, except as provided otherwise in Rule 1012.

9 The 75 strike put would trade at $.30 in this example.

over a two month period or an annualized return of 17.4%. By providing an additional $2.50 strike interval above $75, the investor would have the opportunity to sell the 82.50 strike instead of the 85 strike. If the 85 strike call were trading at $2.35, the 82.50 strike call would trade at approximately 3.30. By selling the 82.50 strike call at 3.30 against an existing stock position, the investor could yield a 4.07% return over a two month period or an annualized 24.40% return. Therefore, an additional choice of a $2.50 strike interval could afford varying yields to the investor.

The Exchange believes that the Program has to date created additional trading opportunities for investors, thereby benefiting the marketplace. The existence of $2.50 strike prices with strike intervals above $75 affords investors the ability to more closely tailor investment strategies to the precise movement of the underlying security and meet their investment, trading and risk management requirements.

The Exchange is also proposing to increase the number of option classes on individual stocks for which the intervals of strike prices will be $2.50 to 60 options classes. Currently, the Exchange may select up to 46 options classes on individual stocks for which the intervals of strike prices will be $2.50. Initially adopted in 1995 as a pilot program, the options exchanges at that time were permitted to list options with $2.50 strike price intervals up to $50 on a total of up to 100 option classes.[10] In 1998, the pilot program was expanded and permanently approved to allow the options exchanges collectively to select up to 200 option classes on which to list options with $2.50 strike price intervals up to $50.[11] Of the current 200 options classes eligible

---

10 See Securities Exchange Act Release No. 35993 (July 19, 1995), 60 FR 38073 (July 25, 1995) (approving File Nos. SR-Phlx-95-08, SR-Amex-95-12, SR-PSE-95-07, SR-CBOE-95-19, and SR-NYSE-95-12).

11 See Securities Exchange Act Release No. 40662 (November 12, 1998), 63 FR 64297 (November 19, 1998) (approving File Nos. SR-Amex-98-21, SR-CBOE-98-29, SR-PCX-

for the Program, 46 have been allocated to the Exchange.[12] In addition, each options exchange is permitted to list options with $2.50 strike price intervals on any option class that another options exchange selects under its program.

Since 1998, the 200 options classes have not been expanded, although increasingly more companies have completed initial public offerings from 1998 through 2010. Additionally, significantly more options classes are trading in 2010 as compared to 1998. The Exchange proposes to increase its allocation from 46 to 60[13] options classes to accommodate investor requests for $2.50 strikes in certain options classes. The Exchange believes that offering additional options classes would benefit investors.

Furthermore, the Exchange does not believe that this proposal would have a negative impact on the marketplace. The Exchange would compare this proposal with the $1 Strike Price expansion, wherein the Exchange expanded its $1 Strike Price Program from 55 individual stocks to 150 individual stocks on which an option series may be listed at $1 strike price intervals.[14] The Exchange believes that this proposal, wherein the Exchange is proposing to increase its allocation from 46 to 60 options classes is substantially less than the $1 Strike Price Program increase and therefore would have less impact than that program, which has not had any negative impact on the market in terms of proliferation of quote volume or fragmentation.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed

---

98-31, and SR-Phlx-98-26).

12 See Securities Exchange Act Release No. 40662 (November 12, 1998), 63 FR 64297 (November 19, 1998) (approving File Nos. SR-Amex-98-21, SR-CBOE-98-29, SR-PCX-98-31, and SR-Phlx-98-26).

13 Currently, The Chicago Board Options Exchange, Incorporated (“CBOE”) has an allocation of 60 options.

14 See Securities Exchange Act Release No. 62420 (June 30, 2010), 75 FR 39593 (July 9, 2010) (SR-Phlx-2010-72).

its capacity and represents that it and the Options Price Reporting Authority have the necessary system capacity to handle the potential additional traffic associated with the listing and trading of classes on individual stocks in the $2.50 Strike Price Program.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[15] in general, and furthers the objectives of Section 6(b)(5) of the Act[16] 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 that the effect of the proposed expansion on the marketplace would not result in a material proliferation of quote volume or concerns with fragmentation. In addition, the Exchange believes that it has the necessary system capacity to handle the potential additional traffic associated with the listing and trading of classes.

Rather, the Exchange believes the $2.50 Strike Price Program proposal would provide the investing public and other market participants increased opportunities to better manage their risk exposure. Accordingly, the Exchange believes that the proposal to expand the Program to allow the listing of options with $2.50 strike price intervals for options with strike prices between $50 and $100 should further benefit investors and the market by providing greater trading opportunities for those underlying stocks that have low volatility and thus trade in a narrow range.

15 15 U.S.C. 78f(b).

16 15 U.S.C. 78f(b)(5).

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 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. Please include File Number SR-Phlx-2011-15 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-2011-15. 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 website (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-Phlx-2011-15 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.[17]

Cathy H. Ahn
Deputy Secretary

[17] 17 CFR 200.30-3(a)(12).