

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64075; File No. SR-Phlx-2011-28)

March 11, 2011

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by NASDAQ OMX PHLX LLC to Expand the Number of Components in the The PHLX Oil Service SectorSM known as OSXSM, on Which Options are Listed and Traded

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on March 2, 2011, 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 is filing with the Commission a proposal to expand the number of components in the PHLX Oil Service SectorSM (the “Index” or “OSXSM”), on which options are listed and traded, and the Index weighting methodology [sic].³ No other changes are made to the Index or the options thereon.

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 of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ PHLX Oil Service SectorSM may also be known as PHLX Oil Service SectorSM Index or PHLX Oil Service Index.

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposal is to expand to thirty the number of components in the PHLX Oil Service SectorSM or OSXSM, on which options are listed and traded, and change the Index weighting methodology to modified capitalization-weighted.⁴ No other changes are made to the Index or the options thereon.

OSXSM options subsequent to this proposal will be identical to OSXSM options that are currently listed and trading except for the number of components in and the weighting methodology of the underlying Index; and will trade pursuant to similar contract specifications (updated regarding components and weighting methodology).⁵

The only post-proposal difference in OSXSM options is that they will overly [sic] an

⁴ The Exchange notes that changing the weighting of the Index from price-weighting to modified capitalization-weighting does not by itself require a rule filing proposal because both weighting methodologies are acceptable per the current generic index listing standards found in Rule 1009A(b)(2). The weighting change is included in this proposal only in conjunction with increasing the number of Index components by more than the amount indicated in Rule 1009A(c)(2), which requires a rule filing proposal.

⁵ The contract specifications for OSXSM options are available at <https://www.nasdaqtrader.com/micro.aspx?id=phlxsectorscontractspecs>.

Index with thirty components (the current Index has fifteen components) that will be modified capitalization-weighted (the current Index is price-weighted).

Background

The Exchange currently has initial listing and maintenance listing standards for options on indexes in Rule 1009A that are designed to allow the Exchange to list options on narrow-based indexes⁶ and broad based indexes⁷ pursuant to generic listing standards (the “Index Listing Standards”).⁸ The PHLX Oil Service SectorSM is a narrow-based index and OSXSM options overlying the Index are listed and traded pursuant to Rule 1009A(b). OSXSM options were originally listed and began trading in 1997 pursuant to Exchange approval.⁹

⁶ A narrow-based index or industry index is defined as: An index designed to be representative of a particular industry or a group of related industries. The term "narrow-based index" includes indices the constituents of which are all headquartered within a single country. Rule 1000A(b)(12).

⁷ A broad-based index or market index is defined as: An index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries. Rule 1000A(b)(11).

⁸ Rule 1009A establishes generic listing standards for options on narrow-based and broad-based indexes pursuant to Rule 19b-4(e) of the Act. See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998). The listing standards in Rule 1009A are similar to those of other options exchanges such as, for example, Chicago Board Options Exchange, Incorporated; International Stock Exchange LLC; and The NASDAQ Stock Market LLC.

⁹ See Securities Exchange Act Release No. 38207 (January 27, 1997), 62 FR 5268 (February 4, 1997)(SR-Phlx-97-02)(notice of filing and immediate effectiveness of proposal to list and trade OSXSM options on the Index). On October 21, 2008, in that OSXSM options met the generic Index Listing Standards per Rule 1009A, the Exchange filed Form 19b-4(e) regarding such options.

The PHLX Oil Service SectorSM is a price-weighted index composed of fifteen companies that provide oil drilling and production services, oil field equipment, support services and geophysical/reservoir services. The Index provides exposure to the dynamic oil industry. The Index is one of several narrow-based sector indexes on which options are listed and traded on the Exchange.¹⁰ When investors want information and investment opportunities specific to the oil industry they very often turn to the Index and the OSXSM options traded thereon.¹¹ The Index has served as an important market indicator and OSXSM options a viable trading and investing vehicle in respect of the oil services sector [sic].¹² Recognizing the market-leading aspects of the Index, the Exchange is proposing a rule change to increase to thirty the number of components in the Index¹³ so that OSXSM options may be listed and traded on this premiere index that even more effectively reflects the oil services sector.

¹⁰ Other sector indexes on which options are listed and traded on the Exchange include: KBW Bank IndexSM (BKXSM); PHLX Gold/Silver SectorSM (XAUSM); PHLX Housing SectorSM (HGXSM); PHLX Utility SectorSM (UTYSM); SIG Energy MLP IndexSM (SVOTM); SIG Oil Exploration & Production IndexTM (EPXSM); PHLX Semiconductor SectorSM (SOXSM); and NASDAQ Internet IndexSM (QNETSM).

¹¹ Other currently available investment products that evaluate the oil industry, albeit differently from OSXSM, include the Oil Services HOLDRs ETF (OIH), iShares Dow Jones U.S. Oil Equipment & Services Index Fund (IEZ), SPDR S&P Oil & Gas Equip & Services ETF (XES), and PowerShares Dynamic Oil Services Portfolio (PX).

¹² During 2010, OSXSM has traded an average of 22,774 contracts per month and has traded as much as 3,826 contracts in a day (February 5, 2010). As of December 31, 2010, there were 11,228 contracts of open interest in OSXSM.

¹³ A listing of the component securities in the Index is available at <https://indexes.nasdaqomx.com/weighting.aspx?IndexSymbol=OSX&menuIndex=0>>>

The Exchange submits that in the proposed expanded form OSXSM would continue to meet the relevant generic Index Listing Standards of Rule 1009A for listing options. Specifically, all the index maintenance requirements in subsection (c) of Rule 1009A applicable to options on narrow-based indexes would be met with one exception.¹⁴ The singular exception is the number of components.¹⁵ In particular, subsection (c)(2) of Rule 1009 [sic] indicates that the total number of component securities in the index may not increase or decrease by more than 33 1/3% from the total number of securities in the index at the time of its initial listing; adding components to equal thirty is outside the (c)(2) parameter, and is the reason why the Exchange is making the current filing.

¹⁴ The maintenance provisions in subsection (c) of Rule 1009A state, in part, as applicable to OSXSM:

(1) The conditions stated in subparagraphs (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12), must continue to be satisfied, provided that the conditions stated in subparagraph (b)(6) must be satisfied only as to the first day of January and July in each year; (2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities; (3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months; (4) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

¹⁵ See *supra* note 4. While the Exchange will change the weighting of the Index from price-weighting to modified capitalization-weighting, both weighting methodologies are acceptable per the current Index Listing Standards. Rule 1009A(b)(2).

Index Design and Index Composition

Currently, the Index is calculated using a price-weighted index methodology.

The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities, which is fixed at 10,000,000 multiplied by each such security's Last Sale Price,¹⁶ and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for Index reporting purposes. If trading in an Index security is halted on its primary listing market, the most recent Last Sale Price for that security is used for all index computations until trading on such market resumes. Likewise, the most recent Last Sale Price is used if trading in a security is halted on its primary listing market before the market is open. The Index is ordinarily calculated without regard to cash dividends on Index securities.

The modified capitalization-weighted methodology is expected to retain, in general, the economic attributes of capitalization weighting, while providing enhanced diversification. To accomplish this, NASDAQ OMX, which maintains the Index, rebalances the Index quarterly and adjusts the weighting of Index components.

Index eligibility is limited to specific security types only. The security types eligible for the Index include foreign or domestic common stocks, ordinary shares,

¹⁶ For purposes of this document, Last Sale Price refers to the following: For a security listed on NASDAQ, it is the last sale price on NASDAQ, which normally would be the NASDAQ Official Closing Price (NOCP) when NASDAQ is closed. For any NYSE-listed or NYSE AMEX listed security, it is the last regular way trade reported on such security's primary U.S. listing market. If a security does not trade on its primary listing market on a given day, the most recent last sale price from the primary listing market (adjusted for corporate actions, if any) is used.

American Depositary Receipts (“ADRs”), shares of beneficial interest or limited partnership interests, and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

As of December 31, 2010, the following were characteristics of the Index using a modified capitalization-weighting methodology:

- the total weighted capitalization of all components of the Index was \$365.08 billion;
- regarding component capitalization, (a) the highest weighted capitalization of a component was \$113.93 billion (Schlumberger N.V.), (b) the lowest weighted capitalization of a component was \$0.80 billion (Global Industries, Ltd.), (c) the mean capitalization of the components was \$12.17 billion, and (d) the median capitalization of the components was \$4.77 billion;
- regarding component price per share, (a) the highest price per share of a component was \$103.54 (Carbo Ceramics, Inc.), (b) the lowest price per share of a component was \$6.93 (Global Industries, Ltd.), (c) the mean price per share of the components was \$49.47, and (d) the median price per share of the components was \$47.92;
- regarding component weightings, (a) the highest weighting of a component was 8% (Schlumberger N.V., Halliburton Company, National Oilwell Varco, Inc., Baker Hughes Incorporated, Transocean Ltd (Switzerland)), (b) the lowest weighting of a component was 0.43% (Global Industries, Ltd.), (c) the mean weighting of the components was 3.33%, (d) the median weighting of the components was 2.60%, and (e) the total weighting of the top five highest weighted components was 40%

(Schlumberger N.V., Halliburton Company, National Oilwell Varco, Inc., Baker Hughes Incorporated, Transocean Ltd (Switzerland));

- regarding component shares, (a) the most available shares of a component was 1.36 billion shares (Schlumberger N.V.), (b) the least available shares of a component was 0.02 billion shares (Carbo Ceramics, Inc.), (c) the mean available shares of the components was 0.24 billion shares, and (d) the median available shares of the components was 0.13 billion shares;
- regarding the six-month average daily volumes (“ADVs”) of the components, (a) the highest six-month ADV of a component was 14.61 million shares (Halliburton Company), (b) the lowest six-month ADV of a component was 0.22 million shares (Bristow Group Inc.), (c) the mean six-month ADV of the components was 3.05 million shares, (d) the median six-month ADVs of the components was 1.40 million shares, (e) the average of six-month ADVs of the five most heavily traded components was 9.70 million shares (Halliburton Company, Weatherford International, Ltd (Switzerland), Schlumberger N.V., Transocean Ltd (Switzerland), Nabors Industries, Inc. New), and (f) 100% of the components had a six-month ADV of at least 200,000; and
- regarding option eligibility, (a) 100.00% of the components were options eligible, as measured by weighting, and (b) 100.00% of the components were options eligible, as measured by number.

Index Calculation and Index Maintenance

The Index is maintained by NASDAQ OMX and index levels are calculated continuously, using the Last Sale Price for each component stock in the Index. Index

values are publicly disseminated at least every fifteen seconds throughout the trading day through a major market data vendor, namely NASDAQ OMX's index dissemination service. The Exchange expects that such dissemination will continue through one or more (NASDAQ OMX-owned or unrelated) major market data vendors.¹⁷

Appurtenant to review of the Index for purposes of rebalancing, component securities are evaluated by NASDAQ OMX. In the event that an Index component security no longer meets the requirements for continued security eligibility, it will be replaced with a security that is not currently in the Index that meets all of the initial security eligibility criteria and additional criteria which follows. Securities eligible for inclusion will be ranked ascending by market value, current price and percentage price change over the previous six months. The security with the highest overall ranking will be added to the Index provided that the Index then meets the following criteria: no single Index security is greater than 30% of the weight of the Index and the top five Index securities are not greater than 55% of the weight of the Index; and non-U.S. component securities that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 15% of the weight of the Index.¹⁸ In the event that the highest-ranking security does not permit the Index to meet the above criteria, the next highest-ranking security will be selected and the Index criteria will again be applied to

¹⁷ Rule 1009A(b)(12) states that should an underlying index be maintained by a broker-dealer, however, the index must be calculated by a third party who is not a broker-dealer, and the broker-dealer will have to erect a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

¹⁸ See Rule 1009A(b).

determine eligibility. The process will continue until a qualifying replacement security is selected.¹⁹ Component changes will be publicly announced.

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Act.²⁰

The Exchange represents that, if the Index ceases to be maintained or calculated, or if the Index values are not disseminated at least every fifteen seconds by a widely available source, the Exchange will promptly notify the Division of Trading and Markets of the Commission, and the Exchange will not list any additional series for trading and

¹⁹ Moreover, changes in the price of an index security driven by corporate events such as stock dividends, stock splits, certain spin-offs, and rights issuances will be adjusted on the ex-date.

In the case of a special cash dividend, a determination will be made on an individual basis whether to make a change to the price of an index security in accordance with its Index dividend policy. If it is determined that a change will be made, it will become effective on the ex-date and advance notification will be made. Ordinarily, whenever there is a change in the price of an index security due to stock dividends, stock splits, spin-offs, rights issuances, or special cash dividends, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index, which might otherwise be caused by any such change.

If the change in total shares outstanding arising from other corporate actions is greater than or equal to 10%, the change is made as soon as practicable.

Otherwise, if the change in total shares outstanding is less than 10%, then all such changes are accumulated and made effective at one time on a quarterly basis after the close of trading on the third Friday in each of March, June, September and December. The Index Shares are derived from the security's total shares outstanding. Intra-quarter, the Index Shares are adjusted by the same percentage amount as the amount that the total shares outstanding have changed.

²⁰ 15 U.S.C. 78s(b)(2).

will limit all transactions in such options to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

Contract Specifications

The contract specifications for the proposed expanded Index options (updated regarding components and weighting methodology) are, as previously noted, identical to the current narrow-based Index options that are currently listed and traded on the Exchange.²¹ Options on the Index are European-style and A.M. cash-settled. The Exchange's trading hours for index options (9:30 a.m. to 4:00 p.m. ET), will apply to options on OSXSM.²² Exchange rules that are applicable to the trading of options on indexes will continue to apply to the trading of options on OSXSM.²³

The strike price intervals for OSXSM options contracts will remain the same as those currently in use: \$1 or greater.²⁴ The minimum increment size for series trading below \$3 will remain \$0.05, and for series trading at or above \$3 will remain \$0.10.²⁵ The Exchange's margin rules will be applicable.²⁶ The Exchange will continue to list options on OSXSM in up to three months from the March, June, September, December

²¹ See supra note 5.

²² See Rule 101.

²³ For trading rules applicable to trading index options, see Rules 1000A et seq. For trading rules applicable to trading options generally, see Rules 1000 et seq.

²⁴ See Commentary .03 to Phlx Rule 1101A. Rule 1101A generally indicates that strike price intervals for index options may be \$5.00, \$2.50 and \$1.00

²⁵ See Phlx Rule 1034(a). However, the rule indicates that certain products (e.g. IWM options and Alpha Index options) may trade at \$0.01 minimum increments.

²⁶ See Phlx Rule 721 et seq.

cycle plus two additional near-term months (that is, as many as five months at all times).²⁷ The trading of OSXSM options will continue to be subject to the same rules that govern the trading of all of the Exchange's index options, including sales practice rules, margin requirements, and trading rules.

Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for options traded on the Index and intends to apply those same program procedures that it applies to the Exchange's current OSXSM options and other index options. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, dated June 20, 1994. ISG members generally work together to coordinate surveillance and investigative information sharing in the stock and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses.²⁸

The Exchange represents that it has the necessary systems capacity to continue to support listing and trading OSXSM options.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act²⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act³⁰ in particular,

²⁷ See Phlx Rule 1101A(b).

²⁸ A list of the current members and affiliate members of ISG can be found at <https://www.isgportal.org/isgPortal/public/members.htm>.

²⁹ 15 U.S.C. 78f(b).

in that it 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 facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system. The Exchange believes that the proposal to expand the OSXSM index will allow the Exchange to continue listing and trading options on this premiere index that even more effectively reflects [sic] the oil services sector.

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

³⁰ 15 U.S.C. 78f(b)(5).

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-2011-28 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-2011-28. 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 copying in the Commission's Public Reference Room. 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-2011-28 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.³¹

Cathy H. Ahn
Deputy Secretary

³¹ 17 CFR 200.30-3(a)(12).