

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68569; File No. SR-NYSEArca-2012-140)

January 3, 2013

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to List and Trade Options on the Nasdaq-100 Index (NDX) and the Reduced-Value Nasdaq-100 Index (MNX) and to Amend NYSE Arca Rule 5.15(a)(1) to Provide That There Are No Position Limits for Options on NDX and MNX

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 December 20, 2012, NYSE Arca, Inc. (“NYSE Arca” or “Exchange”) filed with the Securities and Exchange Commission (“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 list and trade options on Nasdaq-100 Index (NDX) and the reduced-value Nasdaq-100 Index (MNX) and to amend NYSE Arca Rule 5.15(a)(1) to provide that there are no position limits for options on NDX and MNX. The text of the proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, 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 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 those statements may be examined at the places

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange proposes to list and trade options on the full and reduced values of the Nasdaq 100 Index (the “Index”), a stock index calculated and maintained by Nasdaq.³ Specifically, the Exchange proposes to list options based on Nasdaq-100 Index (NDX) and the reduced-value Nasdaq-100 Index (MNX) and to amend Rule 5.15(a)(1) to provide that there are no position limits for options on NDX and MNX. The Exchange also proposes to list and trade FLEX Options and Long-Term Equity Option Series (“LEAPS”) on NDX and MNX. The options on NDX and MNX listed on the Exchange will be identical to those already listed on multiple exchanges.

The Exchange notes that it initially listed for trading options on NDX and MNX as broad-based index options in January 2010 without filing a Rule 19b-4 filing with the Commission.⁴ In addition, when initially listed and traded, because none of the other exchanges that list and trade NDX and MNX had position limits for those indices, nor did the Options Clearing Corporation disseminate position limits information for NDX and MNX, the Exchange similarly did not apply position limits to NDX and MNX. The Exchange is filing the proposed rule change because options on the Index will not otherwise qualify for listing on the Exchange due to the component weightings of the Index. Specifically, Exchange Rule 5.12(a)(8), which allows the listing of options on a broad-based index currently requires that no component of a

³ A description of the Index is available on Nasdaq’s website at http://dynamic.nasdaq.com/dynamic/nasdaq100_activity.stm.

⁴ See Exchange Rule 5.15.

broad-based index account for more than ten percent of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index.⁵ Therefore, like other options exchanges that currently trade options on the Index, the Exchange is seeking to file in order to list and trade options on the Index under the conditions and according to the standards set forth below.

Index Design and Composition

The Index was launched in January 1985 and represents the largest non-financial domestic and international issues listed on Nasdaq based on market capitalization. The Index reflects companies across major industry groups, including computer hardware and software, telecommunications, retail/wholesale trade, and biotechnology.

The Index is calculated using a modified capitalization-weighted methodology. The value of the Index equals the aggregate value of the Index share weights of each of the component securities multiplied by each security's respective official closing price on Nasdaq, divided by the Divisor. The Divisor serves the purpose of scaling such aggregate value (otherwise in the trillions) to a lower order of magnitude which is more desirable for Index reporting purposes. If trading in an Index security is halted while the market is open, the last Nasdaq traded price for that security is used for all index computations until trading resumes. If trading is halted before the market is open, the previous day's official closing price is used. Additionally, the Index ordinarily is calculated without regard to dividends on component securities. The modified capitalization-weighted methodology is expected to retain, in general, the economic attributes of capitalization weighting, while providing enhanced diversification.

⁵ See Exchange Rule 5.12(a)(8).

To accomplish this, Nasdaq reviews the composition of the Index quarterly and adjusts the weighting of Index components using a proprietary algorithm, if certain pre-established weight distribution requirements are not met.

Nasdaq has certain eligibility requirements for inclusion in the Index.⁶ For example, to be eligible for inclusion in the Index, a component security must be exclusively listed on the Nasdaq National Market, or dually listed on a national securities exchange prior to January 1, 2004.⁷ Only one class of security per issuer is considered for inclusion in the Index.

Additionally, the issuer of a component security cannot be a financial or investment company and cannot currently be involved in bankruptcy proceedings. Criteria for inclusion also require the average daily trading volume of a component security to be at least 200,000 shares on Nasdaq. If a component security is of a foreign issuer, based on its country of incorporation, it must have listed options or be eligible for listed-options trading. In addition, the issuer of a component security must not have entered into any definitive agreement or other arrangement which will likely result in the security no longer being Index eligible. An issuer of a component security also must not have annual financial statements with an audit opinion that is currently withdrawn.

As of November 26, 2012, the following were characteristics of the Index:

- the total capitalization of all components of the Index was \$ 3.11 trillion;

⁶ The initial eligibility criteria and continued eligibility criteria are available on Nasdaq's website at http://dynamic.nasdaq.com/dynamic/nasdaq100_activity.stm.

⁷ One of the eligibility requirements is that the security must be seasoned (it has been listed on the market for three whole months [sic]). In the case of spin-offs, the operating history of the spin-off will be considered by Nasdaq. Additionally, if a component security will otherwise qualify to be in the top 25% of securities included in the Index by market capitalization for the six prior consecutive months, it will be eligible if it had been listed for one year.

- regarding component capitalization, (a) the highest capitalization of a component was \$ 554.57 billion (Apple, Inc.), (b) the lowest capitalization of a component was \$ 2.12 billion (Apollo Group, Inc.), (c) the mean capitalization of the components was \$ 31.05 billion, and (d) the median capitalization of the components was \$ 10.91 billion;
- regarding component price per share, (a) the highest price per share of a component was \$ 661.15 (Google, Inc.), (b) the lowest price per share of a component was \$ 2.76 (Sirius XM Radio, Inc.), (c) the mean price per share of the components was \$ 70.30, and (d) the median price per share of the components was \$ 40.38;
- regarding component weightings, (a) the highest weighting of a component was 18.52% (Apple, Inc.), (b) the lowest weighting of a component was 0.07% (Apollo Group, Inc.), (c) the mean weighting of the components was 1.00%, (d) the median weighting of the components was 0.37%, and (e) the total weighting of the top five highest weighted components was 40.78% (Apple Inc., Microsoft Corporation, Google Inc., Oracle Inc., and Amazon.com, Inc.);
- regarding component available shares, (a) the most available shares of a component was 8.42 billion shares (Microsoft Corp.), (b) the least available shares of a component was 39.76 million shares (Intuitive Surgical, Inc.), (c) the mean available shares of the components was 750.27 million shares, and (d) the median available shares of the components was 295.85 million shares;
- regarding the six-month average daily volumes of the components, (a) the highest six-month average daily volume of a component was 61.25 million shares (Sirius XM Radio Inc.), (b) the lowest six-month average daily volume of a component was

- 331,667 shares (Intuitive Surgical, Inc.), (c) the mean six-month average daily volume of the components was 6.94 million shares, (d) the median six-month average daily volume of the components was 3.13 million shares, (e) the average of six-month average daily volumes of the five most heavily traded components was 43.34 million shares (Sirius XM Radio, Inc., Microsoft Corp., Intel Corp., Cisco Systems, Inc., and Micron Technology, Inc.), and (f) 100% of the components had a six-month average daily volume of at least 50,000; and
- regarding option eligibility, (a) 100% of the components were options eligible, as measured by weighting, and (b) 100% of the components were options eligible, as measured by number.

Index Calculation and Index Maintenance

In recent years, the value of the Full-size Nasdaq 100 Index has increased significantly, such that the value of the Index stood at 3,012.03 as of November 29, 2012. As a result, the premium for the Full-size Nasdaq 100 Index options also has increased. The Exchange believes that this has caused Full-size Nasdaq 100 Index options to trade at a level that may be uncomfortably high for retail investors. The Exchange believes that listing options on reduced values will attract a greater source of customer business than if the options were based only on the full value of the Index. The Exchange further believes that listing options on reduced values will provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising the Index. Additionally, by reducing the values of the Index, investors will be able to use this trading vehicle while extending a smaller outlay of capital. The

Exchange believes that this should attract additional investors and, in turn, create a more active and liquid trading environment.⁸

The Full-size Nasdaq 100 Index and the Mini Nasdaq 100 Index levels are calculated continuously, using the last sale price for each component stock in the Index, and are disseminated every 15 seconds throughout the trading day.⁹ The Full-size Nasdaq 100 Index level equals the current market value of component stocks multiplied by 125 and then divided by the stocks' market value of the adjusted base period. The adjusted base period market value is determined by multiplying the current market value after adjustments, times the previous base period market value and then dividing that result by the current market value before adjustments. To calculate the value of the Mini Nasdaq 100 Index, the full value of the Index is divided by ten. To maintain continuity for the Index's value, the divisor is adjusted periodically to reflect events such as changes in the number of common shares outstanding for component stocks, company additions or deletions, corporate restructurings, or other capitalization changes.

The settlement values for purposes of settling both Full-size Nasdaq 100 Index ("Full-size Settlement Value") and Mini Nasdaq 100 Index ("Mini Settlement Value") are calculated based on a volume-weighted average of prices reported in the first five minutes of trading for each of the component securities on the last business day before the expiration date ("Settlement

⁸ Options trading on MNX have generated considerable interest from investors, as measured by its robust trading volume on multiple exchanges in the third quarter of 2012 (126,151 contracts total).

⁹ Full-size Nasdaq 100 Index and Mini Nasdaq 100 Index levels are disseminated through the Nasdaq Index Dissemination Services ("NIDS") during normal Nasdaq trading hours (9:30 a.m. to 4:00 p.m. ET). The Index is calculated using Nasdaq prices (not consolidated) during the day and the official closing price for the close. The closing value of the Index may change until 5:15 p.m. ET due to corrections to the NOCP of the component securities. In addition, the Index is published daily on Nasdaq's website and through major quotation vendors such as Reuters and Thomson's ILX.

Day”).¹⁰ The Settlement Day is normally the Friday preceding “Expiration Saturday.”¹¹ If a component security in the Index does not trade on Settlement Day, the closing price from the previous trading day will be used to calculate both the Full-size Settlement Value and Mini Settlement Value.¹² Accordingly, trading in options on the Index will normally cease on the Thursday preceding an Expiration Saturday. Nasdaq monitors and maintains the Index. Nasdaq is responsible for making all necessary adjustments to the Index to reflect component deletions; share changes; stock splits; stock dividends; stock price adjustments due to restructuring, mergers, or spin-offs involving the underlying components; and other corporate actions. Some corporate actions, such as stock splits and stock dividends, require simple changes to the available shares outstanding and the stock prices of the underlying components.

The component securities are evaluated on an annual basis, except under extraordinary circumstances which may result in an interim evaluation, as follows: securities listed on Nasdaq that meet its eligibility criteria are ranked by market value using closing prices as of the end of October and publicly available total shares outstanding as of the end of November. Eligible component securities which are already in the Index and ranked in the top 100 (based on market value) are retained in the Index. Component securities that are ranked from 101 to 125 are also retained, provided that those securities were ranked in the top 100 eligible securities as of the previous ranking review or have been added to the Index subsequent to the previous ranking review. Securities not meeting such criteria are replaced. The replacement securities chosen are

¹⁰ The aggregate exercise value of the option contract is calculated by multiplying the Index value by the Index multiplier, which is 100.

¹¹ For any given expiration month, options on the Nasdaq 100 Index will expire on the third Saturday of the month.

¹² Full-size Settlement Values and Mini Settlement Values are disseminated by Nasdaq.

those Index-eligible securities not currently in the Index that have the largest market capitalization.

Generally, the list of annual additions and deletions to the Index is publicly announced in early December, and changes to the Index are made effective after the close of trading on the third Friday in December. Moreover, if at any time during the year a component security is determined by Nasdaq to become ineligible for continued inclusion in the Index based on the continued eligibility criteria, that component security will be replaced with the largest market capitalization component not currently in the Index that met the eligibility criteria described earlier.

The Exchange will monitor the Index on a quarterly basis, and will not list any additional series for trading and will limit all transactions in such options to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors if: (i) the number of securities in the Index drops by one-third or more; (ii) 10% or more of the weight of the Index is represented by component securities having a market value of less than \$ 75 million; (iii) less than 80% of the weight of the Index is represented by component securities that are eligible for options trading pursuant to Exchange Rule 5.3.; (iv) 10% or more of the weight of the Index is represented by component securities trading less than 20,000 shares per day; or (v) the largest component security accounts for more than 25% of the weight of the Index or the largest five components in the aggregate account for more than 50% of the weight of the Index.

The Exchange represents that, if the Index ceases to be maintained or calculated, or if the Index values are not disseminated every 15 seconds by a widely available source, it will not list any additional series for trading and 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 proposed contract specifications are identical to the contract specifications of NDX and MNX options that are currently listed on other exchanges. The Index is a broad-based index. Options on the Nasdaq 100 Index are European-style and A.M. cash-settled. The Exchange's trading hours for index options (9:30 a.m. to 4:15 p.m. ET), will apply to options on the Nasdaq 100 Index. Exchange Rules that are applicable to the trading of options on broad-based indexes will apply to both NDX and MNX. The trading of NDX and MNX options will be subject to, among others, Exchange Rules governing margin requirements and trading halt procedures for index options.

The Exchange also proposes to amend Rule 5.15(a)(1) to establish that there are no position limits for options on NDX, which is consistent with the treatment of position limits for NDX on other options markets.¹³ Because MNX is the reduced-value option on the NDX broad-based index option, pursuant to existing Rule 5.15(a), MNX will also have no position limits pursuant to this proposed change. The NDX contracts will be aggregated with the MNX contracts, where ten MNX contracts equal one NDX contract.¹⁴ The Exchange will set strike price intervals for MNX contracts and NDX contract that will be similar to the strike price intervals that are already being used by multiple exchanges that list these options.¹⁵ The minimum increment size for series trading below \$ 3 is \$ 0.05, and for series trading at or above

¹³ See NYSE MKT LLC ("NYSE MKT") Rule 904C; Chicago Board Options Exchange ("CBOE") Rule 24.4; NASDAQ OMX PHLX ("Phlx") Rule 1001A.

¹⁴ See Exchange Rule 5.15(c).

¹⁵ See Exchange Rule 5.19.

\$ 3 is \$ 0.10.¹⁶ The Exchange's margin rules will be applicable.¹⁷ The Exchange may list options on both the NDX and the NMX in up to seven consecutive expiration months plus up to three successive expiration months in the March cycle.¹⁸ The Exchange intends to list the same NDX and MNX options that are already listed by multiple other options exchanges. The trading of LEAPS NDX and LEAPS MNX options will be subject to the same rules that govern the trading of all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.¹⁹ The trading of FLEX NDX and FLEX MNX options will be subject to the same rules that govern the trading of all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.²⁰

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 other index options. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, dated June 20, 1994.²¹ The ISG members 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.

¹⁶ See Exchange Rule 6.72.

¹⁷ See Exchange Rule 5.25.

¹⁸ See Exchange Rule 5.19.

¹⁹ See Exchange Rule 5.19(b).

²⁰ See Exchange Rule 5, Section 4.

²¹ A list of the current members and affiliate members of ISG can be found at www.isgportal.com.

The Exchange represents that it has the necessary systems capacity to support new options series that will result from the introduction of NDX, MNX, NDX LEAPS, MNX LEAPS, FLEX NDX, and FLEX MNX.

Finally, the Exchange proposes to amend Commentary .01 to Rule 5.22 to provide that the reporting authority designated by the Exchange for the Index underlying the NDX and MNX index options is NASDAQ OMX Group, Inc.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b)²² of the Act, in general, and furthers the objectives of Section 6(b)(5),²³ in particular, 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, 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 rule proposal will remove impediments to and perfect the mechanism of a free and open market because it enabling [sic] the Exchange to immediately list and trade full and reduced-size options on the Index in a manner consistent with other options exchanges. The Exchange believes that the proposed rule change would be beneficial to market participants, including market makers, institutional investors and retail investors, by specifying that there are no position limits on NDX and MNX. The Exchange further notes that the rule proposal will remove impediments to and perfect the mechanism of a free and open market because it will harmonize how position limits are treated for NDX and MNX options across options markets. The Commission has already approved the listing and trading and the

²² 15 U.S.C. 78f(b).

²³ 15 U.S.C. 78f(b)(5).

elimination of position limits for NDX and MNX options for other options exchanges, and the Exchange believes that harmonizing the standard across options markets will enable market participants to handle trading in NDX and MNX options similarly regardless of which options market in which they are trading.

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 that is 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 solicited or received with respect to the proposed rule change.

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

Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act²⁴ and Rule 19b-4(f)(6) thereunder.²⁵

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public

²⁴ 15 U.S.C. 78s(b)(3)(A).

²⁵ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with written notice of its 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 Exchange has fulfilled this requirement.

interest. The Exchange requests that the Commission waive the 30-day operative delay so that it can list and trade NDX and MNX options with no position limits without delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.²⁶ The Commission notes the proposal is substantively identical to prior proposed rule changes and existing rules of other exchanges, and does not raise any new regulatory issues.²⁷ For these reasons, the Commission designates the proposed rule change as operative upon filing.

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. Please include File Number SR-NYSEArca-2012-140 on the subject line.

²⁶ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁷ See, e.g., Security Exchange Act Release Nos. 57654 (April 11, 2008), 73 FR 21003 (April 17, 2008) (SR-NASDAQ-2008-028) and 57936 (June 6, 2008), 73 FR 33481 (June 12, 2008) (SR-Phlx-2008-36). See also NYSE MKT Rule 904C, CBOE Rule 24.4, and Phlx Rule 1001A.

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-NYSEArca-2012-140. 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-NYSEArca-2012-140 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.²⁸

Kevin M. O'Neill
Deputy Secretary

²⁸ 17 CFR 200.30-3(a)(12).