

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-63135; File No. SR-NASDAQ-2010-131)

October 20, 2010

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by The NASDAQ Stock Market, LLC to Expand the \$0.50 Strike Price Program

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 October 13, 2010, The NASDAQ Stock Market LLC (“NASDAQ” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 NASDAQ Stock Market LLC proposes to amend Chapter IV titled Securities Traded on NOM, Sec. 6 (Series of Options Contracts Open for Trading), specifically the Exchange’s \$.50 Strike Price Program (the “\$.50 Strike Program” or “Program”)<sup>3</sup> to: (i) expand the \$.50 Strike Program for strike prices below \$1.00; (ii) extend the \$.50 Strike Program to strike prices that are \$5.50 or less; (iii) extend the prices of the underlying security to at or below \$5.00; and (iv) extend the number of options classes overlying 20 individual stocks.

---

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

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

<sup>3</sup> See Securities Exchange Act Release Nos. 59277 (November 6, 2009), 74 FR 59277 (November 17, 2009 (SR-NASDAQ-2009-099) (order approving); and 61736 (March 18, 2010), 75 FR 14229 (March 24, 2010) (SR-NASDAQ-2010-038) (notice of filing and immediate effectiveness allowing concurrent listing of \$3.50 and \$4 strikes for classes that participate in both the \$0.50 Strike Program and the \$1 Strike Program).

The text of the proposed rule change is available on the Exchange's Website at <http://www.nasdaq.cchwallstreet.com>, at the principal office of the Exchange, on the Commission's website at [www.sec.gov](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. 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 this proposed rule change is to modify Supplementary Material of Chapter IV, Section 6 at .05 to expand the \$.50 Strike Program in order to provide investors with opportunities and strategies to minimize losses associated with owning a stock declining in price.

The Exchange is proposing to establish strike price intervals of \$.50, beginning at \$.50 for certain options classes where the strike price is \$5.50 or less and whose underlying security closed at or below \$5.00 in its primary market on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts per day as determined by The Options Clearing Corporation ("OCC") during the preceding three calendar months. The Exchange also proposes to limit the listing of \$.50 strike prices to options classes overlying no more than 20 individual stocks as specifically designated by the Exchange.

Currently, Supplementary Material of Chapter IV, Section 6 at .05 permits strike price intervals of \$.50 or greater beginning at \$1.00 where the strike price is \$3.50 or less, but only for

option classes whose underlying security closed at or below \$3.00 in its primary market on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts per day as determined by The Options Clearing Corporation during the preceding three calendar months. Further, the listing of \$.50 strike prices is limited to options classes overlying no more than 5 individual stocks as specifically designated by the Exchange. The Exchange is currently restricted from listing series with \$1 intervals within \$0.50 of an existing strike price in the same series, except that strike prices of \$2, \$3, and \$4 shall be permitted within \$0.50 of an existing strike price for classes also selected to participate in the \$.50 Strike Program.<sup>4</sup>

The number of \$.50 strike options traded on the Exchange has continued to increase since the inception of the Program. There are now approximately 19 of the \$.50 strike price option classes listed, and traded, across all options exchanges including NOM; 1 of which is a class chosen by NOM for the \$.50 Strike Program. The proposal would expand \$.50 strike offerings to market participants, such as traders and retail investors, and thereby enhance their ability to tailor investing and hedging strategies and opportunities in a volatile market place.

By way of example, if an investor wants to invest in 5,000 shares of Sirius Satellite (“SIRI”) at \$ 0.9678<sup>5</sup>, the only choice the investor would have today would be to buy out-of-the-money calls, at the \$1.00 strike, or to invest in the underlying stock with a total outlay of \$.96 per share or \$4,800. However, if a \$.50 strike series were available, an investor may be able to invest in 5,000 shares by purchasing an exercisable in-the-money \$.50 strike call option. It is reasonable to assume that with SIRI trading at \$.96, the \$.50 strike call option would trade at an estimated price of \$.46 to \$.48 under normal circumstances. This would allow the investor to

---

<sup>4</sup> See Supplementary Material of Chapter IV, Section 6 at 02(b) referring to the \$1 Strike Program.

<sup>5</sup> SIRI was trading at \$ 0.9678 on July 13, 2010.

manage 5,000 shares with the same upside potential return for a cost of only \$2,350 (assuming \$.47 as a call price).

Similarly, if an investor wanted to spend \$4,800 for 5,000 shares of SIRI, a \$.50 put option that would trade for \$.01 to \$.05 would provide protection against a declining stock price in the event that SIRI dropped below \$.50 per share. In a down market, where high volume widely held shares drop below \$1.00, investors deserve the opportunity to hedge downside risk in the same manner as investors have with stocks greater than \$1.00.

Increasing the threshold from \$3.00 to \$5.00 and expanding the number of \$.50 strikes available for stocks under \$5.00 further aids investors by offering opportunities to manage risk and execute a variety of option strategies to improve returns. For example, today an investor can enhance their yield by selling an out-of-the-money call. Using an example of an investor who wants to hedge Citigroup (“C”) which is trading at \$4.24<sup>6</sup>, that investor would be able to choose the \$4.50 strike which is 6% out-of-the- money or they would be able to choose the \$5.00 strike which is 17.92% out-of-the- money, under this proposal. Today, this investor only has the latter choice. Beyond that, this investor today may choose the \$6.00 strike which is 41% out-of-the-money and offers significantly less premium. Pursuant to this proposal if this investor had a choice to hedge with a \$5.50 strike option, the investor would have the opportunity to sell the option at only 29% out- of-the-money and would improve their return by gaining more premium, while also benefitting from 29% of upside return in the underlying equity.

By increasing the number of securities from 5 individual stocks to 20 individual stocks would allow the Exchange to offer investors additional opportunities to use the \$.50 Strike Program. The Exchange notes that \$.50 strikes have had no impact on capacity. Further, the

---

<sup>6</sup> This was the price for C on July 14, 2010.

Exchange has observed the popularity of \$0.50 strikes. The open interest in the \$2.50 August strike series for Synovus Financial Corp. (“SNV”), which closed at \$2.71 on July 13, 2010, was 12,743 options; whereas open interest in the \$2 and \$3 August strike series was a combined 318 options. The open interest in the August \$1.50 strike series for Ambac Financial Group, Inc. (“ABK”), which closed at \$0.7490 on July 13, 2010, was 15,879 options compared to 8,174 options for the \$2 strike series. The August \$2.50 strike series had open interest of 22,280 options, also more than the traditional \$2 strike series.

By expanding the \$.50 Strike Program investors would be able to better enhance returns and manage risk by providing investors with significantly greater flexibility in the trading of equity options that overlie lower price stocks by allowing investors to establish equity options positions that are better tailored to meet their investment, trading and risk

The Exchange also proposes making a corresponding amendment to Supplementary Material of Chapter IV, Section 6 at 02(b) to add \$5 and \$6 to \$1 Strike Program language that addresses listing series with \$1 intervals within \$0.50 of an existing strike price in the same series. Currently, and to account for the overlap with the \$.50 Strike Program, the following series are excluded from this prohibition: strike prices of \$2, \$3, and \$4. The Exchange proposes to add \$5 and \$6 to that list to account for the proposal to expand the \$.50 Strike Program to a strike price of \$5.50.

## 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

---

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

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

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 amending the current \$.50 Strike Program will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment decisions in a greater number of securities. Investors would be provided with an opportunity to minimize losses associated with declining stock prices which do not exist today. With the increase in active, low-prices securities, the Exchange believes that amending the \$.50 Strike Program to allow a \$.50 strike interval below \$1 for strike prices of \$5.50 or less is necessary to provide investor additional opportunity to minimize and manage risk.

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.

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and, by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>9</sup> and Rule 19b-4(f)(6) thereunder.<sup>10</sup>

---

<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest because the proposal is substantially similar to that of another exchange that has been approved by the Commission.<sup>11</sup> Therefore, the Commission designates the proposal operative upon filing.<sup>12</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2010-131 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.

---

<sup>11</sup> See Securities Exchange Act Release No. 63132 (October 19, 2010) (SR-Phlx-2010-118) (order approving expansion of \$0.50 Strike Price Program).

<sup>12</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

All submissions should refer to File Number SR-NASDAQ-2010-131. 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-NASDAQ-2010-131 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.<sup>13</sup>

Florence E. Harmon  
Deputy Secretary

---

<sup>13</sup> 17 CFR 200.30-3(a)(12).