

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65228; File No. SR-Phlx-2011-119)

August 30, 2011

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Reversal and Conversion Strategies

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 August 18, 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 proposes to establish a fee cap on equity options transactions on certain reversals and conversion strategies. The text of the proposed rule change is available on the Exchange’s website at <http://nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, at the principal office 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 proposed rule change is to incentivize market participants by capping option transaction fees related to reversal and conversion strategies to encourage trading on the Exchange. Reversals are established by combining a short stock position with a short put and a long call position that shares the same strike and expiration. Conversions are established by combining a long position in the underlying security with a long put and a short call position that shares the same strike and expiration.

The Exchange proposes to cap Specialist,³ Registered Option Trader (“ROT”),⁴ SQT,⁵ RSQT,⁶ Professional,⁷ Broker-Dealer and Firm option transaction fees in Multiply Listed

³ A Specialist is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

⁴ A Registered Options Trader (“ROT”) includes a SQT, a RSQT and a Non-SQT ROT, which by definition is neither a SQT or a RSQT. A ROT is defined in Exchange Rule 1014(b) as a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014 (b)(i) and (ii).

⁵ An SQT is defined in Exchange Rule 1014(b)(ii)(A) as an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned.

⁶ An RSQT is defined Exchange Rule in 1014(b)(ii)(B) as an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange.

⁷ The Exchange defines a “professional” as any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s) (hereinafter “Professional”).

Options⁸ at \$500 per day for reversal and conversion strategies which are executed on the same trading day in the same options class (“Reversal and Conversion Cap”). The Reversal and Conversion Cap will only apply to executions occurring on either of the two days preceding the standard options expiration date, which is typically the third Thursday and Friday of every month.⁹ The Exchange proposes to add language to Section II of the Exchange’s Fee Schedule entitled, Equity Options Fees, to describe the Reversal and Conversion Cap and define reversals and conversions.

For example, the standard options expiration date for September 2011 is September 17, 2011. Therefore, on the two preceding days, Thursday, September 15, 2011, and Friday, September 16, 2011, Specialists, ROTs, SQTs, RSQTs, Professionals, Broker-Dealers and Firms are eligible for the Reversal and Conversion Cap.

In order to capture the necessary information electronically, the Exchange requires members to designate on the trade ticket whether the trade involves a dividend, merger, short stock interest or reversal and conversion strategy. Specifically, members would be required to enter the proper code, “Z4”, on the trading ticket and into the system, or directly into the Floor Broker Management System (“FBMS”).¹⁰

⁸ For purposes of this filing, a Multiply Listed security means an option that is listed on more than one exchange.

⁹ When the standard expiration date is also an Exchange holiday, the trading dates will be brought forward by one day.

¹⁰ FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. FBMS also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. See Exchange Rule 1080, Commentary .06.

The Exchange also proposes to make an amendment to Section VII of the Fee Schedule entitled, “Options Floor Broker Subsidy.” The Exchange currently excludes dividend, merger and short stock interest strategies from the eligible contract computations in computing the monthly eligible contracts for the Options Floor Broker Subsidy (“Subsidy”).¹¹ The Exchange proposes to also exclude those executions subject to the Reversal and Conversion Cap from the Subsidy. The Exchange proposes to amend Section VII to add language to indicate that executions subject to the Reversal and Conversion Cap will not be included in the eligible contract computations.

The Exchange also proposes to amend the applicability of the dividend,¹² merger¹³ and short stock interest¹⁴ strategies in Section II of the Exchange’s Fee Schedule. Currently, Specialist, ROT, SQT and RSQT, Firm and Broker-Dealer equity option transaction charges are capped at \$1,000 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class when such members are trading in their own proprietary

¹¹ The Exchange currently pays an Options Floor Broker Subsidy (“Subsidy”) to member organizations with Exchange registered floor brokers that enter eligible contracts into the Exchange’s FBMS. The Subsidy is paid based on the contract volume on Customer-to-non-Customer as well as non-Customer-to-non-Customer transactions for that month. Only the volume from orders entered by floor brokers into FBMS and subsequently executed on the Exchange qualifies.

¹² A dividend strategy is defined as transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed the first business day prior to the date on which the underlying stock goes ex-dividend.

¹³ A merger strategy is defined as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, executed the first business day prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock.

¹⁴ A short stock interest strategy is defined as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class.

accounts.¹⁵ The Exchange proposes to add Professionals to the list of market participants that may cap their options transaction charges for dividend, merger and short stock interest strategies.

2. Statutory Basis

The Exchange believes that its proposal to amend its Fee Schedule is consistent with Section 6(b) of the Act¹⁶ in general, and furthers the objectives of Section 6(b)(4) of the Act¹⁷ in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members and other persons using its facilities.

The Exchange believes that the proposed Reversal and Conversion Cap is reasonable because the Exchange is proposing to offer all members an opportunity to reduce option transaction fees in Multiply Listed options for reversals and conversions. Customers are not subject to the Reversal and Conversion Cap because they do not pay option transaction charges for reversal and conversion strategies. The Exchange also believes that this proposal is equitable and not unfairly discriminatory because the Exchange is offering all members, except for Customers, the same opportunity to cap their option transaction fees in Multiply Listed Options for two days every month. Also, this proposal is similar in nature to caps on other exchanges,

¹⁵ Equity option transaction charges for dividend, merger and short stock interest strategies combined are further capped at the greater of \$10,000 per member or \$25,000 per member organization per month when such members are trading in their own proprietary accounts.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(4).

namely NYSE Arca, Inc. (“NYSEArca”),¹⁸ NYSE Amex, Inc. (“NYSE Amex”)¹⁹ and the Chicago Board Options Exchange, Incorporated (“CBOE”)²⁰ for reversals and conversions.

The Exchange also believes that its proposal to allow Professionals to cap option transaction charges for dividend, merger and short stock interest strategies executed on the same trading day in the same options class when such members are trading in their own proprietary accounts is reasonable because all other market participants, other than Customers, are able to cap these fees. In addition, the Exchange believes that adding Professionals to the list of market participants that may cap dividend, merger and short stock interest strategies, is equitable and not unfairly discriminatory because the Exchange is offering all members, except for Customers, the opportunity to cap their transaction fees for dividend, merger and short stock interest strategies. Customers do not pay option transaction charges for dividend, merger or short stock interest strategies.

The Exchange believes that amending Section VII to indicate that executions subject to the Reversal and Conversion Cap will not be included in the eligible contract computations of the Subsidy is reasonable since the Exchange currently excludes other strategies that are the subject of a cap. The recipients of the cap on strategies already receive a benefit by capping their options transaction charges and therefore the Exchange believes it is reasonable to exclude those strategies from the Subsidy. Additionally, the Exchange believes that excluding those executions that are subject to the Reversal and Conversion Cap from the Subsidy computation is equitable

¹⁸ See NYSE Arca’s Fee Schedule.

¹⁹ See NYSE Amex’s Fee Schedule.

²⁰ See CBOE’s Fees Schedule.

and not unfairly discriminatory because the exclusion will be applied evenly for all member organizations with Exchange registered floor brokers.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.²¹ 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. 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

²¹ 15 U.S.C. 78s(b)(3)(A)(ii).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2011-119 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-2011-119. 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-2011-119 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.²²

Elizabeth M. Murphy
Secretary

²² 17 CFR 200.30-3(a)(12).