SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67105; File No. SR-NASDAQ-2012-065)

June 4, 2012

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Strike Price Intervals and Position Limits for OSX, SOX, and HGX

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 May 24, 2012, The NASDAQ Stock Market LLC ("NASDAQ") 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 NASDAQ. 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

NASDAQ is filing with the Commission a proposal for the NASDAQ Options Market ("NOM" or "Exchange") to amend Chapter XIV (Index Rules), Sections 7 (Position Limits for Industry and Micro Narrow-Based Index Options) and 11 (Terms of Index Options Contracts) to copy into NOM rules the established rules of another options exchange regarding strike price intervals and position limits for options on the PHLX Oil Service Sector℠ (OSX℠), the PHLX Semiconductor Sector℠ (SOX℠), and the PHLX Housing Sector™ (HGX℠) (together the "Specified Indexes").[3] The Exchange also proposes to amend Chapter XIV, Sections 2

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

2 17 CFR 240.19b-4.

3 Options on Specified Indexes that will be listed and traded on NOM subsequent to this proposal will be identical to the same Specified Index options that are listed and traded on NASDAQ OMX Phlx LLC ("Phlx"). Specified Index options will have the same specifications whether listed on NOM or Phlx.

(Definitions) and 11 to add the names of the Specified Indexes to lists of index reporting authorities, European-style indexes, and $2.50-eligible index options.

The text of the proposed rule change is available from NASDAQ's website at http://nasdaq.cchwallstreet.com/Filings/, at NASDAQ's principal office, 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, NASDAQ 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. NASDAQ 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 amend Chapter XIV (Index Rules), Sections 7 and 11 to copy into NOM rules the established rules of another options exchange regarding strike price intervals and position limits for options on OSX, SOX, and HGX. The proposed rule change would allow NOM to list and trade options on these three Specified Indexes.[4] The Exchange also proposes to amend Chapter XIV, Sections 2 and 11 to add the

[4] The options will be listed pursuant to Rule 19b-4(e) of the Act. 17 CFR 240.19b-4(e). Rule 19b-4(e) enables an exchange to list an option pursuant to generic listing standards set forth in the rules of such exchange and, within five business days after the commencement of trading of the option, to file Form 19b-4(e) with the Commission to indicate the listing.

names of the Specified Indexes to lists of index reporting authorities, European-style indexes, and $2.50-eligible index options.

The rule changes proposed herein in respect of position limits and strike price intervals are based almost verbatim on the established rules of another options market and self regulatory organization ("SRO"), Phlx. The proposed rule changes are based on Phlx Rules 1001A (Position Limits) and 1101A (Terms of Option Contracts).[5]

Background

Options on the narrow-based indexes[6] known as PHLX Oil Service Sector, PHLX Semiconductor Sector, and PHLX Housing Sector, when listed on NOM subsequent to this proposal, will be identical to options on these Specified Indexes that are currently listed and trading on Phlx.[7] Thus, options on the Specified Indexes that will be listed and traded on NOM

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5 See Securities Exchange Act Release Nos. 61590 (February 25, 2010), 75 FR 9988 (March 4, 2010) (SR-Phlx-2009-113) (order approving 54,000, 72,000, and 94,500 contract position limits for options on OSX, SOX, and HGX); 53243 (February 7, 2006), 71 FR 7607 (February 13, 2006) (SR-Phlx-2005-43) (order approving no less than $2.50 strike price intervals for options on OSX, SOX, and HGX, if the strike price is less than $200); and 60840 (October 20, 2009), 74 FR 55593 (October 28, 2009) (SR-Phlx-2009-77) (order approving $1 strike price intervals for options on OSX, SOX, and HGX).

6 The term "narrow-based index" and "industry index" is defined in Chapter XIV, Section 2(i) as an index designed to be representative of a particular industry or a group of related industries.

7 The contract specifications for the PHLX Oil Service Sector, the PHLX Semiconductor Sector, and the PHLX Housing Sector can be found at https://www.nasdaqtrader.com/micro.aspx?id=phlxsectorscontractspecs. A listing of the components of the respective Specified Indexes can be found at https://indexes.nasdaqomx.com/weighting.aspx?IndexSymbol=XSOX&menuIndex=0.

will, like on Phlx, remain European style[8] (PHLX Oil Service Sector and PHLX Housing Sector options) and American style (PHLX Semiconductor Sector options), and will be A.M.-settled.[9]

The PHLX Oil Service Sector (OSX) 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.[10] OSX provides exposure to the dynamic oil industry. When investors want information and investment opportunities specific to the oil industry they very often turn to the PHLX Oil Service Sector and the OSX options traded thereon.[11] The PHLX Oil Service Sector has served as an important market indicator and OSX options as a viable trading and investing vehicle in respect of the oil services sector.[12]

The PHLX Semiconductor Sector (SOX) is a modified capitalization-weighted index composed of thirty companies primarily involved in the design, distribution, manufacture, and

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8 The term "European-style index option" is defined in Chapter XIV, Section 2(g) as an option on an industry or market index (a market index is a broad-based index) that can be exercised only on the last business day prior to the day it expires.

9 The term "A.M.-settled index option" is defined in Chapter XIV, Section 2(c) as an index options contract for which the current index value at expiration shall be determined as provided in Section 11(a)(5) of Chapter XIV.

10 The Exchange understands that OSX expansion and weighting changes are being evaluated, and intends to make equivalent changes. See Securities Exchange Act Release No. 64478 (May 12, 2011), 76 FR 28840 (May 18, 2011) (SR-Phlx-2011-28) (approval order allowing expanding number of OSX components and changing to modified capitalization-weighting).

11 Other currently available investment products that evaluate the oil industry, albeit differently from OSX, include Market Vectors Oil Service 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 (PXJ).

12 During 2011, OSX has traded an average of 7,374 contracts per month and has traded as much as 11,498 contracts in a day (October 4, 2011). As of December 31, 2011, there were 13,771 contracts of open interest in OSX.

sale of semiconductors.[13] SOX provides exposure to the fast-growing (yet extremely volatile) semiconductor industry. When investors want information and investment opportunities specific to semiconductors, they look most often to the SOX.[14] Indeed, the popularity of SOX is reflected in its trading volumes.[15] It has been observed that a rise or decline in the SOX usually precedes a similar move in the broader technology market. As such, SOX has served as a leading indicator for technology stocks. Recognizing the market-leading aspects of the PHLX Semiconductor Sector, the Exchange is proposing a rule change that would allow SOX options to trade on NOM.

The PHLX Housing Sector (HGX) is a modified capitalization-weighted index composed of nineteen companies whose primary lines of business are directly associated with the U.S. housing construction market.[16] The index composition encompasses residential builders, suppliers of aggregate, lumber and other construction materials, manufactured housing and mortgage insurers. HGX is currently composed of many of the largest housing-related stocks (e.g., Hovnanian ENT Inc., KB Home, Ryland Group, Inc., Toll Brothers, Inc., and Weyerhaeuser Company). HGX has developed into a respected index providing exposure to the housing sector for hedging and trading purposes.

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13 See Securities Exchange Act Release No. 61796 (March 29, 2010), 75 FR 16887 (April 2, 2010) (SR-Phlx-2010-20) (order approving expanding SOX components to thirty).

14 Other currently available investment products that evaluate the semiconductor market, albeit differently from SOX, include Market Vectors Semiconductor ETF (SMH) and iShares S&P North American Technology Sector Index Fund (IGM).

15 During 2011, SOX has traded an average of 8,839 contracts per month and has traded as much as 7,259 contracts in a day (January 13, 2011). As of December 31, 2011, there were 4,077 contracts of open interest in SOX.

16 See Securities Exchange Act Release No. 52512 (September 27, 2005), 70 FR 57919 (October 4, 2005) (SR-Phlx-2005-50) (notice of filing and immediate effectiveness to reduce the value of HGX options by half). HGX is listed on Phlx per Form 19b-4(e).

The options on Specified Indexes will be listed on NOM pursuant to the generic Rule 19b-4(e) initial listing standards ("generic standards") for narrow-based indexes and will be identical to the options on Specified Indexes that are already listed and trading on Phlx. The generic standards are found in Section 6(b) of Chapter XIV and discuss, among other things, weighting methodologies, market capitalization, trading volume, component weighting and concentration, that each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Act, reporting, and rebalancing.[17]

The Exchange notes that this rule change proposal does not propose or make any changes to the NOM generic listing standards. The proposal does no more than almost verbatim copy the language regarding position limits and strike price intervals that are in use on Phlx for the same options on Specified Indexes.

Proposed Position Limits

Position limits on NOM are currently discussed in Section 7 of Chapter XIV. Section 7 states that NOM options traders (known as Options Participants) shall comply with the applicable rules of CBOE with respect to position limits for narrow based index options traded on NOM and also on the CBOE, or with the applicable rules of NOM for industry index options traded on NOM but not traded on the CBOE. Because Specified Index options are not traded on CBOE, the Exchange is, as noted, copying the Phlx position limits for options on the Specified Indexes into its rules.[18] The position limits proposed by the Exchange are exactly the same

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[17] Subsection (c) of Section 6 discusses maintenance listing criteria once an option is listed on the Exchange pursuant to 19b-4(e) generic listing standards.

[18] The Exchange notes that independently of the proposed specific OSX, SOX, and HGX rule position limits (or strike price intervals) copied from Phlx rules through this proposal, by virtue of Section 7 of Chapter XIV, CBOE position limit rules and processes (e.g., hedge exemptions, firm facilitation exemptions) will continue to apply to Exchange members.

54,000, 72,000, and 94,500 contract position limits that have been established and in use for years on Phlx for options on Specified Indexes per Phlx Rule 1001A.

Thus, the Exchange proposes to copy the Phlx position limits into proposed Section 7(d) of Chapter XIV to state that options on Specified Index position limits will be:

(1) 54,000 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, and PHLX Housing Sector, if the Exchange determines, at the time of a review conducted pursuant to this Section 7, that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or

(2) 72,000 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, and PHLX Housing Sector, if the Exchange determines, at the time of a review conducted pursuant to this Section 7, that any single underlying stock accounted, on average, for 20% or more of the index value or that any five underlying stocks together accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value, during the 30-day period immediately preceding the review; or

(3) 94,500 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, and PHLX Housing Sector if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred.[19]

In addition, the Exchange proposes to add Section 7(e) setting forth the procedure to be followed at the time of a review pursuant to Section 7(d).[20] The proposed review procedure is, like the

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19 By operation of Section 9 of Chapter XIV, the exercise limits for options on Specified Indexes are the same as the position limits.

20 Proposed Section 7(e) states: (e) The Exchange shall make the determinations required by subparagraph (d) of this Section 7 with respect to options on each industry index at the commencement of trading of such options on the Exchange and thereafter review the

proposed position limits for OSX, SOX, and HGX in Section 7, copied from Phlx Rule 1001A.

The proposed Specified Index option position limits are, as noted, identical to the position limits for the same Specified Index options that have been listed and traded on Phlx for years. The Exchange is doing nothing more than directly transferring the position limits from Phlx Rule 1001A to proposed new Section 7(d) and (e) of Chapter XIV in the NOM rules, without change.[21]

Proposed Strike Price Increments

Section 11(c) of Chapter XIV currently states that the interval between strike prices will be no less than $5.00. Section 11(c) also states that for the classes of index options that are listed in the rule the interval between strike prices will be no less than $2.50 if the strike price is less than $200.[22] Currently, options on the Specified Indexes are listed and traded on Phlx at $1

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determination semi-annually on January 1 and July 1. (1) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index is lower than the maximum position limit permitted by the criteria set forth in subparagraph (d) of this Section 7, the Exchange may affect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in subparagraph (d) of this Section 7, the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring option series relating to such particular industry index, which is open for trading on the date of the review; and provided further that such a reduction shall not become effective if the Exchange determines, at the next succeeding semi-annual review, that the existing position limit applicable to such options is consistent with the criteria set forth in subparagraph (d) of this Section 7.

[21] As with all direct transfers of language from the rule set of one exchange to another, non-substantive formatting changes are made to conform the new rule language to the structure of the existing rule set.

[22] The Exchange proposes to add the Specified Indexes to the list of $2.50-eligible index options that are already noted in Section 11(c).

strike price intervals and the Exchange proposes to transfer the strike price interval rule language from Phlx to NOM.

Specifically, the Exchange proposes to copy the Phlx $1 strike price interval rule almost verbatim from Phlx Rule 1101A into proposed Section 11(i) of Chapter XIV as follows:

The interval between strike prices of series of options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, and PHLX Housing Sector (which are known in the proposed rule as the "$1 Indexes") will be $1 or greater, subject to the immediately following conditions:

(1) Regarding initial series, the Exchange may list such series at $1 or greater strike price intervals for each $1 Index, and will list at least two strike prices above and two strike prices below the current value of each $1 Index at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for each $1 Index that are within 5 points from the closing value of each $1 Index on the preceding day.

(2) Regarding additional Series, such series of the same class of each $1 Index may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when each underlying $1 Index moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of each $1 Index. The Exchange may also open additional strike prices that are more than 30% above or below each current $1 Index value provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers.[23]

[23] Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In addition to the initial listed series, the Exchange

(3) The Exchange shall not list LEAPS on $1 Indexes at intervals less than $2.50.

The Exchange also proposes to add a delisting policy to Section 11(i) of Chapter XIV.[24] The proposed delisting policy is almost verbatim from Phlx Rule 1101A.

The proposed $1 strike price interval rule is, as discussed, identical to the $1 strike price interval rule that is in effect for the same Specified Index options that have been listed and traded on Phlx for years. The Exchange is doing nothing more than directly transferring the $1 strike price interval rule text language from Phlx Rule 1101A to proposed Section 11 of Chapter XIV of the NOM rules, without change.

Contract Specifications

The contract specifications for the Specified Index options that will be listed and traded on NOM are identical to the same three narrow-based Specified Index options that are currently listed and traded on Phlx.[25] Specified Index options that will be traded on NOM will be Europen [sic]-style (PHLX Oil Service Sector and PHLX Housing Sector options) and American style (PHLX Semiconductor Sector options), and will be A.M. cash-settled. The Exchange's general trading hours for options (9:30 a.m. to 4:00 p.m. ET), will apply to options on the Specified

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may list up to sixty (60) additional series per expiration month for each series in $1 Indexes.

24 The proposed delisting policy states: with respect to each $1 Index added pursuant to the above paragraphs, the Exchange will regularly review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of each $1 Index, and in each $1 Index may delist series with no open interest in both the put and the call series having a: (A) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (B) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month. Notwithstanding the delisting policy, customer requests to add strikes and/or maintain strikes in $1 Index options eligible for delisting may be granted.

25 See supra note 8.

Indexes.[26] Exchange rules that are applicable to the trading of options on indexes on the Exchange will continue to apply to the trading of options on the three Specified Indexes.[27]

The strike price intervals for Specified Index options contracts will be no less than $5.00 generally, no less than $2.50 if the strike price is below $200, and $1 if certain conditions are met.[28] The minimum increment size for series trading below $3 will be $0.05, and for series trading at or above $3 will be $0.10.[29] The Exchange's margin rules will be applicable.[30] The Exchange intends to list options on Specified Indexes in up to three months from the March, June, September, December cycle plus two additional near-term months (that is, as many as five months at all times).[31] The trading of Specified Index 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 Specified Indexes and intends to apply those same program procedures that it applies to the Exchange's current equity and index options. Trading of Specified Index options on the Exchange will be subject to FINRA's surveillance procedures for derivative products.[32]

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26 See Section 2 of Chapter VI. However, option contracts on fund shares or broad-based indexes may trade until 4:15 p.m. ET.

27 For rules applicable to index options specifically, see Chapter XIV of the NOM rules. For trading rules applicable to options trading in general, see Chapter I et seq.

28 See proposed Section 11(c) and (i) of Chapter XIV.

29 See Section 5 of Chapter VI.

30 See Chapter XIII.

31 See Section 11 to Chapter XIV.

32 FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA's performance under this regulatory services agreement.

The Exchange may obtain information via the Intermarket Surveillance Group ("ISG") from other exchanges that are members or affiliates of the ISG;[33] and from public and non-public data sources such as, for example, Bloomberg. 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.

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

Housekeeping Changes

In terms of technical housekeeping changes, the Exchange proposes to simply add the names of the Specified Indexes to the current lists of indexes in two sections of Chapter XIV. The first such proposed change is to add the names of the Specified Indexes to Supplementary Material to Section 2, which currently has a list of indexes for which NASDAQ is the index reporting authority. And the second proposed change is to add the names of the Specified Indexes to Section 11: OSX and HGX to subsection (a)(4), which currently has a list of European-style indexes; and OSX, SOX, and HGX to subsection (a)(5), which currently has a list of A.M.-settled index options.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[34] in general, and furthers the objectives of Section 6(b)(5) of the Act[35] 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

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33 For a list of the current members and affiliate members of ISG, see www.isgportal.com.

34 15 U.S.C. 78f(b).

35 15 U.S.C. 78f(b)(5).

investors and the public interest. The Exchange believes that by copying into its rules the same exact position limits and strike price intervals that are used on another options exchange for trading options on the PHLX Oil Service Sector, the PHLX Semiconductor Sector, and the PHLX Housing Sector, it will enable the listing and trading of Specified Index options on the Exchange. This will give traders, investors, and public customers expanded flexibility and opportunity to closely tailor their investment and hedging decisions.

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

Written comments were neither solicited nor received.

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 Act[36] and Rule 19b-4(f)(6) thereunder.[37]

At any time within 60 days of the filing of the proposed rule change, the Commission

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36 15 U.S.C. 78s(b)(3)(A).

37 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. NASDAQ has fulfilled this requirement.

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-NASDAQ-2012-065 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-NASDAQ-2012-065. 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-2012-065 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.[38]

Kevin M. O'Neill
Deputy Secretary

[38] 17 CFR 200.30-3(a)(12).