SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62420; File No. SR-Phlx-2010-72)

June 30, 2010

Self-Regulatory Organizations; NASDAQ OMX PHLX, Inc.; Order Granting Approval of Proposed Rule Change to Expand Its $1 Strike Program to 150 Classes

I. Introduction

On May 7, 2010, NASDAQ OMX PHLX, Inc .("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to expand the Exchange's $1 Strike Price Program[3] (the "$1 Strike Program" or "Program") to allow the Exchange to select 150 individual stocks on which options may be listed at $1 strike price intervals. The proposed rule change was published for comment in the Federal Register on May 28, 2010.[4] The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposals

The $1 Strike Program was established as a pilot program on June 11, 2003.[5] The

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

2 17 CFR 240.19b-4.

3 See Phlx Rule 1012, Commentary .05(a)(i).

4 Securities Exchange Act Release No. 62151 (May 21, 2010), 75 FR 30078 ("Notice").

5 See Securities Exchange Act Release No. 48013 (June 11, 2003), 68 FR 35933 (June 17, 2003) (SR-Phlx-2002-55) (approval of pilot program). The Strike Program was then extended several times until June 5, 2008. See Securities Exchange Act Release Nos. 49801 (June 3, 2004), 69 FR 32652 (June 10, 2004) (SR-Phlx-2004-38); 51768 (May 31, 2005), 70 FR 33250 (June 7, 2005) (SR-Phlx-2005-35); 53938 (June 5, 2006), 71 FR 34178 (June 13, 2006) (SR-Phlx-2006-36); and 55666 (April 25, 2007), 72 FR 23879 (May 1, 2007) (SR-Phlx-2007-29).

Program was subsequently made permanent in 2008,[6] and was last expanded in 2009.[7] The $1 Strike Program currently allows the Exchange to select a total of 55 individual stocks on which option series may be listed at $1 strike price intervals. To be eligible for inclusion in the Program, an underlying stock must close below $50 in its primary market on the previous trading day. For each stock selected for the Program, the Exchange may list strike prices at $1 intervals from $1 to $50, but no $1 strike price may be listed that is greater than $5 from the underlying stock's closing price in its primary market on the previous day. The Exchange also may list $1 strikes on any other option class designated by another securities exchange that employs a similar program under that exchange's rules.

The Exchange may not list long-term option series with $1 strike price intervals for any class selected for the program, except as specifically permitted by Exchange rules.[8] The Exchange is restricted from listing any series that would result in strike prices being $0.50 apart, except that series with strike prices of $2, $3, and $4 are permitted within $0.50 of an existing series for classes also selected to participate in the $0.50 strike program.[9]

The Program includes a delisting policy that requires the Exchange, on a monthly basis, to review series that were originally listed under the Program with strike prices that are more than $5 from the current underlying values of the options classes in the Program. The Exchange shall delist series with no open interest in both the put and the call series having either: (i) a

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6 See Securities Exchange Act Release No. 57111 (January 8, 2008), 73 FR 2297 (January 14, 2008) (SR-Phlx-2008-01).

7 See Securities Exchange Act Release No. 59590 (March 17, 2009), 74 FR 12412 (March 24, 2009) (SR-Phlx-2009-21).

8 See Securities Exchange Act Release No. 61277 (January 4, 2010), 75 FR 1442 (January 11, 2009) (SR-Phlx-2009-108) (notice of filing and immediate effectiveness of a rule change permitting the Exchange to list up to 200 option classes on individual stocks with $1 strike prices up to $5 in LEAPS®).

9 See Phlx Rule 1012, Commentary .05(a)(ii).

strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; or (ii) a strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.[10]

The Exchange has proposed to amend its rules to expand the $1 Strike Program to allow each Exchange to select a total of 150 individual stocks on which option series may be listed at $1 strike price intervals. The existing restrictions on listing series with $1 strikes, as outlined above, will continue. The provision that each Exchange may also list series with $1 strikes on any other option class designated by another securities exchange that employs a similar program under that exchange's rules will remain unchanged.

The Exchange represented that it and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing and trading of an expanded number of options series as proposed by this filing. In addition, the Exchange noted that, since the inception of the Program in 2003, the Exchange has not had any substantive problems, related to capacity or otherwise, attributed to the Program or the listing and trading of options at $1 strike intervals.

III. Discussion

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[11] In particular, the Commission finds that the proposal is consistent with

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10 Notwithstanding the delisting policy, the Exchange may grant member requests to add strikes and/or maintain strikes in series of options classes traded pursuant to the Program that are eligible for delisting.

11 In approving these proposed rule changes, the Commission notes that it has considered the proposed rules' impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Section 6(b)(5) of the Act[12] in that it is designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public interest.

Currently, the maximum number of classes on which $1 strike intervals may be listed is 440 (8 x 55), as there are eight exchanges that offer a $1 strike program. Phlx has represented in its filing that market conditions have led to an increase in the number of securities trading below $50, and that there are currently more than 2,000 options classes for which the underlying stock trades below $50. The Exchange reports that it has, therefore, received repeated requests from its members to expand the $1 Strike Program to a greater number of classes. However, the Exchange is constrained from doing so because it has listed $1 strike options on the maximum number of 55 classes under its current rule.

The Commission believes that, as the price of an underlying stock declines, narrower strike price intervals on options overlying the stock may be appropriate. In this case, the Commission believes that the proposal to have $1 strike price intervals in a limited number of active options series priced between $1 and $50 is consistent with the Act. The expanded $1 Strike Program appears reasonably designed to allow investors to establish equity options positions that are better tailored to meet their investment objectives, particularly given current market conditions. The Commission also believes that continued adherence to the delisting policy should ensure the Exchange's expanded $1 Strike Program maintains a reasonable balance between the Exchange's desire to accommodate market participants by offering a wider array of products and the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes or a significant dispersal of liquidity across multiple series.

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12 15 U.S.C. 78f(b)(5).

In approving the proposed rule change, the Commission has relied on the Exchange's representation that it has the necessary systems capacity to support the new options series that will be listed under this proposal. Further, the Commission expects that the Exchange will continue to monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRA's, and vendors' automated systems.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[13] that the proposed rule changes (SR-Phlx-2010-072) be, and they hereby are, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[14]

Florence E. Harmon
Deputy Secretary

[13] 15 U.S.C. 78s(b)(2).

[14] 17 CFR 200.30-3(a)(12).