

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-63206; File No. SR-BX-2010-073)

October 28, 2010

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Expand the \$0.50 Strike 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 27, 2010, NASDAQ OMX BX, Inc. (the “Exchange”) filed with the Securities and Exchange Commission (the “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 amend Chapter IV, Section 6 (Series of Options Contracts Open for Trading) of the Rules of the Boston Options Exchange Group, LLC (“BOX”), specifically BOX’s \$0.50 Strike Price Program (the “\$0.50 Strike Program” or “Program”)<sup>3</sup> to: (i) expand the \$0.50 Strike Program for strike prices below \$1.00; (ii) extend the \$0.50 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 to those overlying 20 individual stocks. The text of the proposed rule change is available from the principal office of the Exchange,

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<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. 60814 (October 13, 2009), 74 FR 53535 (October 19, 2009) (SR-BX-2009-63); and 61811 (March 31, 2010), 75 FR 17802 (April 7, 2010) (SR-BX-2010-25) (notice of filing and immediate effectiveness permitting concurrent listing of \$3.50 and \$4 strikes for classes in the \$0.50 Strike and \$1 Strike Programs).

on the Commission's website at [www.sec.gov](http://www.sec.gov), at the Commission's Public Reference Room, and also on the Exchange's Internet website at

<http://nasdaqomxbx.cchwallstreet.com/NASDAQOMXBX/Filings/>.

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 these statements may be examined at the places specified in Item IV below. The self-regulatory organization 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 Chapter IV, Section 6, Supplementary Material .06 of the BOX Rules to expand the \$0.50 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 \$0.50, beginning at \$0.50 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 \$0.50 strike prices to options classes overlying no more than 20 individual stocks as specifically designated by BOX.

Currently, Chapter IV, Section 6, Supplementary Material .06 of the BOX Rules permits strike price intervals of \$0.50 or greater beginning at \$1.00 where the strike price for the class is \$3.50 or less, but only for options 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 OCC during the preceding three calendar months. Further, the listing of \$0.50 strike prices is limited to options classes overlying no more than 5 individual stocks as specifically designated by BOX. BOX 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 \$0.50 Strike Program.<sup>4</sup>

The number of \$0.50 strike options traded on BOX has continued to increase since the inception of the Program. There are now approximately 25 options classes in the \$0.50 Strike Program and they are listed, and traded, across all options exchanges including BOX; two of which are classes chosen by BOX for the \$0.50 Strike Program. This proposed rule change would expand \$0.50 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, suppose an investor wanted to invest in 5,000 shares of Sirius Satellite (“SIRI”) on July 13, 2010. The closing price for SIRI on that day was \$ 0.9678. If the investor wanted to buy a call option as an alternative to purchasing the shares outright for about \$4,800, the lowest strike price available was the \$1 strike, an out-of-the money option. However, if a \$0.50 strike series had been available, the investor would have been able to control

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

5,000 shares by purchasing 50 exercisable in-the money \$0.50 strike call options. BOX notes that a 3-month SIRI call option with an implied volatility of 50 has a theoretical value of \$0.47,<sup>5</sup> or \$47 per contract. Thus, by investing in options with a \$0.50 strike price, the investor could have benefited from the same upside potential as the stock purchase, but at a cost of only \$2,350 (50 contracts at \$47 per contract).

Similarly, if an investor wanted to hedge a position in SIRI stock with put options, the lowest available strike price at the time was \$1, an in-the-money option. If a \$0.50 strike series had been available, the investor could have used 50 out-of-the-money puts for a fraction of the cost of buying 50 put options with a \$1 strike price. BOX believes that investors deserve the opportunity to hedge downside risk in stocks trading less than \$1.00 in the same manner as investors have with stocks trading greater than \$1.00.

Increasing the threshold for the price of the underlying security from \$3.00 to \$5.00 and expanding the number of \$0.50 strikes available for stocks priced 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, that investor would be able to choose the \$4.50 strike which is 6% out-of-the-money or 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 the position with a \$5.50 strike option, the investor would have the opportunity to sell the option at only 29% out-of-the-money, as compared to 41%, and

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<sup>5</sup> Using a Black Scholes pricing model.

would improve her return by gaining more premium, while also benefiting from 29% of upside return in the underlying equity.

By increasing the number of securities underlying options classes in the Program from 5 individual stocks to 20 individual stocks would allow BOX to offer investors additional opportunities to use the \$0.50 Strike Program. BOX notes that \$0.50 strikes have had no material impact on capacity. Further, BOX has observed the popularity of \$0.50 strikes. Expanding the \$0.50 Strike Program will allow investors to better enhance returns and manage risk because they are provided significantly greater flexibility in trading options that overlie lower priced stocks. Expanding the Program will also allow investors to establish equity options positions that are better tailored to meet their investment, trading and risk needs.

The Exchange also proposes making a corresponding amendment to Chapter IV, Section 6, Supplementary Material .02(b) of the BOX Rules 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 \$0.50 Strike Program, the following series are excluded from this prohibition: strike prices of \$2, \$3, and \$4. BOX proposes to add \$5 and \$6 to that list to account for the proposal to expand the \$0.50 Strike Program to strike prices of up to \$5.50.

Finally, the Exchange proposes to remove the following sentence: Additionally, for an option class selected for the \$1 Strike Price Program, BOX may not list \$1 Strike Prices on any series having greater than nine (9) months until expiration. This sentence should have been removed when the Exchange expanded the \$1 Strike Price Program in a limited fashion to allow

BOX to list new series in \$1 intervals up to \$5 in long-term option series in up to 200 option classes on individual stocks.<sup>6</sup>

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>7</sup> in general, and 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 prevent fraudulent and manipulative acts, to remove impediments to and perfect the mechanism for a free and open market and a national market system and, in general, to protect investors and the public interest. In particular, the Exchange believes that amending the current \$0.50 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, which does not exist today, to minimize losses associated with declining stock prices. With the increase in actively traded, low-priced securities, BOX believes that amending the \$0.50 Strike Program to allow a \$0.50 strike interval below \$1 for strike prices of \$5.50 or less is necessary to provide investors 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 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

The Exchange has neither solicited nor received comments on the proposed rule change.

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<sup>6</sup> See Securities Exchange Act Release No. 61041 (November 20, 2009), 74 FR 53535 (November 30, 2009) (SR-BX-2009-73).

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

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

### 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>

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.

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<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 Commission has waived the five-day prefiling requirement in this case.

<sup>11</sup> See Securities Exchange Act Release No. 63132 (October 19, 2010), 75 FR 65541 (October 25, 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).

#### 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-BX-2010-073 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-BX-2010-073. 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-BX-2010-073 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

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