

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72069; File No. SR-BX-2014-023)

May 1, 2014

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding the Quarterly Options Series 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 April 25, 2014, NASDAQ OMX BX, Inc. (“BX” or “Exchange”), 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 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

BX proposes a rule change to amend Chapter IV (Securities Traded on BX Options), Supplementary Material .04(c) to Section 6 (Series of Options Contracts Open for Trading) of the BX Options Market in order to modify the Quarterly Options Series (“QOS”) Program to eliminate the cap on the number of additional series that may be listed per expiration month for each QOS in exchange-traded fund (“ETF”) options.

The text of the proposed rule change is attached hereto as Exhibit 5.

The text of the proposed rule change is available from BX’s website at <http://nasdaqomxbx.cchwallstreet.com>, at BX’s principal office, and at the Commission’s Public Reference Room.

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

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

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 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 filing is to amend Chapter IV, Supplementary Material .04(c) to Section 6 to modify the QOS Program to eliminate the cap on the number of additional series that may be listed per expiration month for each QOS in ETF options. This filing does not propose any substantive changes to the QOS Program.

The Exchange is proposing to amend its Chapter IV, Supplementary Material .04(c) to Section 6 to align its rules with those of other options exchanges that do not have a cap on the number of additional series that may be listed per expiration month for each QOS in ETF options.<sup>3</sup>

As set out in Supplementary Material .04 to Section 6, the Exchange may list QOS up to five currently listed options classes that are either index options or options on ETFs. The

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<sup>3</sup> See Securities Exchange Act Release No. 71080 (December 16, 2013), 78 FR 77191 (December 20, 2103) (notice of filing and immediate effectiveness of SR-CBOE-2013-125) (the "CBOE Filing"). See also Securities Exchange Act Release Nos. 70854 (November 13, 2013), 78 FR 69465 (November 19, 2103) (notice of filing and immediate effectiveness of SR-NYSEMKT-2013-90); and 70855 (November 13, 2013), 78 FR 69493 (November 19, 2013) (notice of filing and immediate effectiveness of SR-NYSEArca-2013-120) (collectively, the "NYSE Filings").

Exchange may also list QOS on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. Currently, for each QOS in ETF options that has been initially listed on the Exchange, the Exchange may list up to 60 additional series per expiration month. The Exchange now proposes to delete the 60 additional series cap.

The Exchange notes that its proposal would also make the treatment of additional QOS series in ETF options consistent with the treatment of additional QOS series in stock index options.<sup>4</sup> While these QOS Programs are similar, the QOS Program in stock index options does not place a cap on the number of additional series that the Exchange may list per expiration month for each QOS in index options. Elimination of the cap set forth in Supplementary Material .04(c) to Section 6, therefore, would result in similar regulatory treatment in respect of additional series in ETF options and additional series in index options. The Exchange also notes that it is not subject to the same series limitations for other programs including options series with weekly expirations.<sup>5</sup>

The Exchange believes the elimination of the cap would also help market participants

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<sup>4</sup> See Chapter XIV, Section 11(g), which governs the QOS for index options.

<sup>5</sup> Chapter IV, Supplementary Material .07 to Section 6, for example, governs the Exchange's Short Term Options ("STOs", which are also known as "Weeklys") Series Program. Supplementary Material .07 sets a maximum number of thirty (30) currently listed strikes on which Short Term Option Series may be opened. The Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. If the Exchange opens less than twenty (20) Short Term Option Series, additional series 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 the market price of the underlying security moves substantially from the exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current price of the underlying security. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current price of the underlying security provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers (Market-Makers trading for their own account shall not be considered when determining customer interest under this provision).

meet their investment objective by providing expanded opportunities to roll ETF options into later quarters. Because of the current cap, however, the Exchange may not be able to list the appropriate series to do so. Elimination of the cap would allow the Exchange to meet the investment needs of market participants in such situations. Elimination of the cap would also allow the Exchange to react to moving markets by adding appropriate strike prices closer to the underlying security. The Exchange believes that the proposed change would provide market participants with the ability to better tailor their trading to meet their investment objectives, including hedging securities positions, by permitting the Exchange to list additional QOS in ETF options that meet such objectives. With regard to the impact of this proposal on system capacity, the Exchange represents that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any potential additional traffic associated with this current amendment to the QOS Program. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange also represents that it does not believe this expansion will cause fragmentation to liquidity.

To help ensure that only active options series are listed, the Exchange has in place procedures to delist inactive series. Chapter IV, Supplementary Material .04 to Section 6 requires the Exchange to review, on a monthly basis, the QOS Program series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and 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; or (b) a strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.<sup>6</sup> The Exchange believes this provision helps to

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<sup>6</sup> Chapter IV, Supplementary Material .04(f) to Section 6.

maintain capacity to handle quote traffic.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>7</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of 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 the proposed rule change is designed to remove impediments to and perfect the mechanism of a free and open market because it will expand the investment options available to investors and will allow for more efficient risk management. The Exchange believes that removing the cap on the number of QOS in ETF options permitted to be listed on the Exchange will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment and hedging decisions to their needs, and, therefore, the proposal is designed to protect investors and the public interest. In addition, the elimination of the cap will, as discussed, make the treatment of additional QOS series in ETF options consistent with most options exchanges, and consistent with the treatment of additional QOS series in index options on the Exchange, thus resulting in similar regulatory treatment for similar option products.

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

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

With regard to the impact of this proposal on system capacity, the Exchange has noted that it and OPRA have the necessary systems capacity to handle any potential additional traffic associated with this current amendment to the QOS Program. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange also represents that it does not believe this expansion will cause fragmentation to liquidity.

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. To the contrary, the Exchange believes that the proposed rule change will relieve any burden on, and in fact will promote, competition. The elimination of the cap on additional series in the QOS program will benefit investors by providing more flexibility to more closely tailor their investment and hedging decisions.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the

Commission may designate, the proposed rule change 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 asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement will allow the Exchange to compete with other options exchanges proposing similar changes without putting the Exchange at a competitive disadvantage. The Exchange also stated that the proposal protects investors and is in the public interest because it fosters competition by allowing the QOS Program to increase on more than one exchange. For these reasons, the Commission believes that the proposed rule change presents no novel issues and that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest; and will allow the Exchange to remain competitive with other exchanges. Therefore, the Commission designates the proposed rule change to be operative upon filing.<sup>11</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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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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). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the 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.

<sup>11</sup> For purposes only of waiving the 30-day operative delay, the Commission has also 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-2014-023 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BX-2014-023. 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-2014-023 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>12</sup>

Kevin M. O'Neill  
Deputy Secretary

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