

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54493; File No. SR-NYSEArca-2006-46)

September 25, 2006

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change, and Amendment No. 1 Thereto, Relating to Generic Listing and Maintenance Standards for Broad-Based Index Options

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 July 25, 2006, the NYSE Arca, Inc. (“NYSE Arca” 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 principally by the NYSE Arca. On September 8, 2006, the Exchange filed Amendment No. 1.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and is approving the proposal, as amended, on an accelerated basis.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend NYSE Arca Rule 5.12 to adopt new “generic” listing standards for broad-based index options pursuant to Rule 19b-4(e) under the Act.⁴ The text of the proposed rule change is available on the NYSE Arca’s Web site (<http://www.tradearca.com>), at the NYSE Arca’s Office of the Secretary and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, which replaced the original filing in its entirety, the Exchange proposed to modify NYSE Arca Rule 5.15(a) to clarify that the position limit for broad-based index options is 25,000 contracts on the same side of the market, and made non-substantive changes to its proposed rule text. The Exchange also made clarifying changes in its description of the proposed rule change.

⁴ 17 CFR 240.19b-4(e).

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 NYSE Arca 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 III below. The NYSE Arca 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 Exchange proposes to amend NYSE Arca Rule 5.12 to establish listing and maintenance standards, pursuant to Rule 19b-4(e) under the Act,⁵ for broad-based index options. The proposal will allow the Exchange to list and trade, pursuant to Rule 19b-4(e) under the Act,⁶ broad-based index options that meet the listing standards in NYSE Arca Rule 5.12(a). The listing standards require, among other things, that the underlying index be broad-based, as defined in NYSE Arca Rule 5.10(b)(23); that options on the index be a.m.-settled; that the index be capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted; and that the index be comprised of at least 50 securities, all of which must be “NMS stocks,” as defined in Rule 600 of Regulation NMS.⁷ In addition, NYSE Arca Rule 5.12(a)

⁵ Id.

⁶ Id.

⁷ Rule 600 of Regulation NMS defines an “NMS stock” to mean “any NMS security other than an option.” An “NMS security” is “any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options.” 17 CFR 242.600.

requires (among other things) that a specified percentage of the index's component securities meet certain minimum market capitalization and average daily trading volume requirements; that no single component account for more than 10% of the weight of the index and that the five highest weighted components represent no more than 33% of the weight of the index; that the index value be widely disseminated at least every 15 seconds; that index components comprising at least 80% of the weight of the index must be "options eligible" pursuant to NYSE Arca Rule 5.3; and that the Exchange have written surveillance procedures in place with respect to the index options. NYSE Arca Rule 5.12(a) also provides that non-U.S. index components that are not subject to a comprehensive surveillance sharing agreement between the Exchange and the primary market(s) trading the index components may comprise no more than 20% of the weight of the index. The Exchange represents that its surveillance procedures are adequate to properly monitor the trading of broad-based index options and that it intends to apply its existing surveillance procedures for index options to monitor trading in broad-based index options listed pursuant to NYSE Arca Rule 5.12(a). Additionally, the Exchange must reasonably believe that it has adequate system capacity to support the trading of any index options listed pursuant to NYSE Arca Rule 5.12(a). The Exchange also proposes to adopt NYSE Arca Rule 5.12(b), which establishes maintenance standards for broad-based index options listed pursuant to NYSE Arca Rule 5.12(a).

NYSE Arca also proposes to apply NYSE Arca Rule 6.8, as modified by NYSE Arca Rule 5.15, which establishes a position limit of 25,000 contracts on the same side of the market,⁸ to broad-based index options listed pursuant to NYSE Arca Rule 5.12(a).

⁸ In this proposed rule change, NYSE Arca is proposing to amend NYSE Arca Rule 5.15(a) to clarify that the position limit of 25,000 contracts is on the same side of the market in the same underlying index.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁰ in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market, and, in general, to protect investors and the public interest.

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 that is 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. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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-NYSEArca-2006-46 on the subject line.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

Paper Comments:

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

All submissions should refer to File Number SR-NYSEArca-2006-46. 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 Web site (<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 inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the NYSE Arca. 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-NYSEArca-2006-46 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

After careful review, the Commission finds that the proposed rule change, as amended, 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 proposed rule change, as amended, is consistent with Section 6(b)(5) of the Act,¹² which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, 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 investors and the public interest.

Currently, to list options on a particular broad-based index, the NYSE Arca must file a proposed rule change with the Commission pursuant to Section 19(b)(1) of the Act and Rule 19b-4 thereunder. However, Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) will not be deemed a proposed rule change pursuant to Rule 19b-4(c)(1) if the Commission has approved, pursuant to Section 19(b) of the Act, the SRO’s trading rules, procedures, and listing standards for the product class that would include the new derivative securities product, and the SRO has a surveillance program for the product class.

As described more fully above, the NYSE Arca proposes to establish listing standards pursuant to Rule 19b-4(e) for broad-based index options. The Commission’s approval of the NYSE Arca’s listing standards for broad-based index options will allow options that satisfy the listing standards to begin trading pursuant to Rule 19b-4(e), without constituting a proposed rule change within the meaning of Section 19(b) of the Act and Rule 19b-4, for which notice and

¹¹ In approving this proposal, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹² 15 U.S.C. 78f(b)(5).

comment and Commission approval is necessary.¹³ The NYSE Arca's ability to rely on Rule 19b-4(e) to list broad-based index options that meet the requirements of NYSE Arca Rule 5.12(a) potentially reduces the time frame for bringing these securities to the market, thereby promoting competition and making new broad-based index options available to investors more quickly.

The Commission notes that the NYSE Arca has represented that it has adequate trading rules, procedures, listing standards, and surveillance program for broad-based index options. NYSE Arca's existing index option trading rules and procedures will apply to broad-based index options listed pursuant to proposed NYSE Arca Rule 5.12(a). Additionally, existing NYSE Arca rules, including provisions addressing sales practices and margin requirements, also will apply to these options. In addition, as mentioned above, the NYSE Arca has established a position limit of 25,000 contracts on the same side of the market for broad-based index options listed pursuant to NYSE Arca Rule 5.12(a), by applying NYSE Arca Rule 6.8, as modified by NYSE Arca Rule 5.15, to such options.¹⁴ NYSE Arca Rule 5.18(a) provides that the exercise limits for broad-based index options are equivalent to the position limits contained in NYSE Arca Rule 5.15. The Commission believes that the position and exercise limits should serve to minimize potential manipulation concerns.

The NYSE Arca represents that its surveillance procedures are adequate to properly monitor the trading of broad-based index options and that it intends to apply its existing surveillance procedures for index options to monitor trading in broad-based index options listed

¹³ When relying on Rule 19b-4(e), the SRO must submit Form 19b-4(e) to the Commission within five business days after the SRO begins trading the new derivative securities product. See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998) (File No. S7-13-98).

¹⁴ See supra at note 3.

pursuant to NYSE Arca Rule 5.12(a). In addition, because proposed NYSE Arca Rule 5.12(a)(9) requires that each component of an index be an “NMS stock,” as defined in Rule 600 of Regulation NMS under the Act, each index component must trade on a registered national securities exchange or through The Nasdaq Stock Market, Inc. (“Nasdaq”).¹⁵ Accordingly, the NYSE Arca will have access to information concerning trading activity in the component securities of an underlying index through the Intermarket Surveillance Group (“ISG”).¹⁶ In addition, proposed NYSE Arca Rule 5.12(a)(10) provides that non-U.S. index components that are not subject to a comprehensive surveillance sharing agreement between the NYSE Arca and the primary market(s) trading the index components may comprise no more than 20% of the weight of the index.¹⁷ The Commission believes that these requirements will help to ensure that the NYSE Arca has the ability to monitor trading in broad-based index options listed pursuant to NYSE Arca Rule 5.12(a) and in the component securities of the underlying indexes.

¹⁵ Recently, the Commission approved the application of The NASDAQ Stock Market LLC, a subsidiary of Nasdaq, to become a registered national securities exchange. See Securities Exchange Act Release No. 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006). At the time of the Commission’s consideration of this matter, Nasdaq is still operating as a subsidiary of the National Association of Securities Dealers (“NASD”), a registered national securities association for certain securities.

¹⁶ The ISG was formed on July 14, 1983 to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. All of the registered national securities exchanges and NASD are members of the ISG. In addition, futures exchanges and non-U.S. exchanges and associations are affiliate members of the ISG.

¹⁷ However, such non-U.S. index components, as “NMS stocks,” would be registered under Section 12 of the Act and listed on a national securities exchange where there is last sale reporting.

The Commission believes that the requirements in the proposed NYSE Arca Rules regarding, among other things, the minimum market capitalization, trading volume, and relative weightings of an underlying index's component stocks are designed to ensure that the markets for the index's component stocks are adequately capitalized and sufficiently liquid, and that no one stock dominates the index. In addition, as mentioned above, proposed NYSE Arca Rule 5.12(a)(1) requires that the underlying index be "broad-based," as defined in NYSE Arca Rule 5.10(b)(23).¹⁸ The Commission believes that these requirements minimize the potential for manipulating the underlying index.

The Commission believes that the requirement in proposed NYSE Arca Rule 5.12(a)(11) that the current index value be widely disseminated at least once every 15 seconds by the Options Price Reporting Authority, the Consolidated Tape Association, the Nasdaq Index Dissemination Service or one or more major market data vendors¹⁹ during the time an index option trades on the NYSE Arca should provide transparency with respect to current index values and contribute to the transparency of the market for broad-based index options. In addition, the Commission believes, as it has noted in other contexts, that the requirement in proposed NYSE Arca Rule 5.12(a)(2) that an index option be settled based on the opening prices of the index's component securities, rather than on closing prices, could help to reduce the

¹⁸ NYSE Arca Rule 5.10(b)(23) defines "broad-based index" to mean "an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries."

¹⁹ The NYSE Arca stated that "[m]ajor market data vendors' for the purposes of NYSE Arca Rule 5.12(a)(11) includes, but is not limited to, securities information vendors such as Bloomberg and Reuters."

potential impact of expiring index options on the market for the index's component securities.²⁰

The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of the notice of filing in the Federal Register. The Exchange has requested accelerated approval of the proposed rule change. The proposal implements listing and maintenance standards and position and exercise limits for broad-based index options substantially identical to those recently approved for the Philadelphia Stock Exchange, Inc., the International Securities Exchange, Inc., the American Stock Exchange LLC, and the CBOE.²¹ The Commission does not believe that the Exchange's proposal raises any novel regulatory issues. Therefore, the Commission finds good cause, consistent with Section 19(b)(2) of the Act,²² to approve the proposed rule change, as amended, on an accelerated basis.

²⁰ See, e.g., Securities Exchange Act Release No. 30944 (July 21, 1992), 57 FR 33376 (July 28, 1992) (order approving a Chicago Board Options Exchange, Incorporated ("CBOE") proposal to establish opening price settlement for S&P 500 Index options).

²¹ See Securities Exchange Act Release No. 54158 (July 17, 2006), 71 FR 41853 (July 24, 2006) (SR-Phlx-2006-17); Securities Exchange Act Release No. 52578 (October 7, 2005), 70 FR 60590 (October 18, 2005) (SR-ISE-2005-27); Securities Exchange Act Release No. 52781 (November 16, 2005), 70 FR 70898 (November 23, 2005) (SR-Amex-2005-069); Securities Exchange Act Release No. 53266 (February 9, 2006), 71 FR 8321 (February 16, 2006) (SR-CBOE-2005-59).

²² 15 U.S.C. 78s(b)(2).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²³ that the proposed rule change (SR-NYSEArca-2006-46), as amended, is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁴

Nancy M. Morris
Secretary

²³ Id.

²⁴ 17 CFR 200.30-3(a)(12).