

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64788; File No. SR-Phlx-2011-89)

July 1, 2011

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change Relating to Alpha Index Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4² thereunder, notice is hereby given that on June 23, 2011, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II, 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, pursuant to Section 19(b)(1) of the Act³ and Rule 19b-4 thereunder,⁴ proposes to list and trade options on a number of new Alpha Indexes and to amend Exchange Rule 1001A, Position Limits, with respect to certain Alpha Index options.⁵

The text of the proposed rule change is available on the Exchange's Website at <http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(1).

⁴ 17 CFR 240.19b-4.

⁵ Alpha Indexes are a family indexes developed by NASDAQ OMX Group, Inc. ("Nasdaq").

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

On February 7, 2011, the Commission approved the Exchange's proposed rule change to list and trade options on a number of Alpha Indexes.⁶ Alpha Indexes measure relative total returns of one underlying stock or exchange traded fund ("ETF") share against another underlying stock or ETF share underlying options which are also traded on the Exchange (each such combination of two components is referred to as an "Alpha Pair"). Thus, an Alpha Index measures the relative total return of one stock or ETF share against another stock or ETF share. The first component identified in an Alpha Pair (the "Target Component") is measured against the second component identified in the Alpha Pair (the "Benchmark Component"). Total return measures performance (rate of return) of price appreciation plus dividends over a given evaluation period.

The Alpha Index options which the Commission has approved for listing and trading on the Exchange are limited to specific Alpha Indexes the Target Component of which is a single

⁶ See Securities Exchange Act Release No. 63860 (February 7, 2011), 76 FR 7888 (February 11, 2011) SR-Phlx-2010-176.

stock.⁷ The purpose of this proposed rule change is to expand the number of Alpha Indexes on which options can be listed to include certain Alpha Indexes based on the following Alpha Pairs: DIA/SPY, EEM/SPY, EWJ/SPY, EWZ/SPY, FXI/SPY, GLD/SPY, IWM/SPY, QQQ/SPY, SLV/SPY, TLT /SPY, XLE/SPY and XLF/SPY. In these Alpha Indexes the Target Component as well as the Benchmark Component is an ETF share. The proposed Alpha Index options will enable investors to trade the relative performance of the market sectors represented by the Target Components as compared with the overall market performance represented by the Benchmark Component SPY.

As with each initial Alpha Index option, each proposed new Alpha Index option will meet the criteria set forth in Exchange Rule 1009A(f).⁸ Further, following the listing of these

⁷ The Commission approved listing and trading of options on Alpha Indexes based on the following Alpha Pairs: AAPL/SPY, AMZN/SPY, CSCO/SPY, F/SPY, GE/SPY, GOOG/SPY, HPQ/SPY, IBM/SPY, INTC/SPY, KO/SPY, MRK/SPY, MSFT/SPY, ORCL/SPY, PFE/SPY, RIMM/SPY, T/SPY, TGT/SPY, VZ/SPY and WMT/SPY. In connection with its proposed rule change to list and trade this initial set of Alpha Index options, the Exchange represented that it would not list Alpha Index options on any other Alpha Pairs without filing a proposed rule change seeking Commission approval.

⁸ Rule 1009A(f) requires that options on Alpha Indexes meet the following criteria: (1) Alpha Index options will be A.M.-settled. The exercise settlement value will be based upon the opening prices of the individual stock or ETF from the primary listing market on the last trading day prior to expiration (usually a Friday). (2) At the time of listing an Alpha Index option, options on each underlying component of an Alpha Index will also be listed and traded on the Exchange and will meet the requirements of Rule 1009, Criteria for Underlying Securities. Additionally, each underlying component's trading volume (in all markets in which the underlying security is traded) must have averaged at least 2,250,000 shares per day in the preceding twelve months. (3) Following the listing of an Alpha Index option, options on each of the component securities of the Alpha Index will continue to meet the continued listing standards set forth by PHLX Rule 1010, Withdrawal of Approval of Underlying Securities or Options. Additionally, each underlying component's trading volume (in all markets in which the underlying security is traded) must have averaged at least 2,000,000 shares per day in the preceding twelve months. (4) No Alpha Index option will be listed unless and until options overlying each of the Alpha Index component securities have been listed and traded on a national securities exchange with an average daily options trading volume during the three

Alpha Index options, options on each of the component securities of the Alpha Index must continue to meet the continued listing standards set forth by Exchange Rule 1010, Withdrawal of Approval of Underlying Securities or Options.

Position Limits

The Exchange also proposes to amend section (f) of Exchange Rule 1001A to establish a 15,000 contract position limit in options on Alpha Indexes in which the Target Component is an ETF share. This 15,000 contract position limit would apply not only to the specific Alpha Index options proposed herein, but also to any options the Exchange may list in the future on Alpha Indexes in which the Target Component is an ETF share.⁹ For purposes of determining compliance with position limits, positions in Alpha Index options will be aggregated with positions in equity options on the underlying securities. All position limit hedge exemptions will apply.

Clearing

Like the Alpha Index options that are currently trading, the proposed new Alpha Index options are “Strategy Based Options” that will be cleared by the Options Clearing Corporation.

Surveillance

Surveillance for opening price manipulation will be in place for the launch of these new Alpha Index options and other existing surveillance patterns will be utilized to monitor trading in these options. The Exchange represents that these surveillance procedures are adequate to

previous months of at least 10,000 contracts. Following the listing of an Alpha Index option, options on each of the component securities of the Alpha Index must continue to meet this options average daily volume standard.

⁹ The Exchange will not, however, list options on any such Alpha Pairs without filing a proposed rule change seeking Commission approval.

monitor the trading of the new Alpha Index options. For surveillance purposes, the Exchange will have complete access to information regarding trading activity in the pertinent underlying securities and options thereon.

Margin

The Exchange will set customer margin levels for the new Alpha Index options at the higher of the margin required for options on the Target Component or the margin required for options on the Benchmark Component.

Systems Capacity

Additionally, the Exchange affirms that it possesses the necessary systems capacity to support new series that would result from the introduction of these new Alpha Index options. The Exchange also has been informed that OPRA has the capacity to support such new series.

Customer Protection

Exchange rules designed to protect public customers trading in options would apply to the new Alpha Index options. Phlx Rule 1026 is designed to ensure that options, including Alpha Index options, are sold only to customers capable of evaluating and bearing the risks associated with trading in the instruments. Phlx Rule 1024, applicable to the conduct of accounts, Phlx Rule 1025 relating to the supervision of accounts, Phlx Rule 1028 relating to confirmations, and Phlx Rule 1029 relating to delivery of options disclosure documents also apply to trading in Alpha Index options.

Exchange Rules Applicable

All other Exchange rules applicable to Alpha Options will also apply to the Alpha Options proposed herein.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act¹¹ 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 investors and the public interest, by making available additional options for investors. In particular, the listing of the proposed new Alpha Index options will present investors with new investment alternatives.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve or disapprove such proposed rule change, or
- (B) Institute proceedings to determine whether the proposed rule change should be

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

disapproved.

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-Phlx-2011-89 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-Phlx-2011-89. 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-Phlx-2011-89 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.¹²

Cathy H. Ahn
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).