

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66077; File No. SR-Phlx-2011-179)

January 3, 2012

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change Relating to the MSCI EM Index

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 December 21, 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 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, pursuant to Section 19(b)(1) of the Act³ and Rule 19b-4 thereunder,⁴ proposes to amend Exchange Rules 1079, 1009A and 1101A, to list and trade new options on the MSCI EM Index based upon the Full Value MSCI Emerging Markets (“EM”) Index (“Full Value MSCI EM Index”).⁵

The Exchange also proposes to create a new Rule 1108A entitled “MSCI EM Index” which provides additional detailed information pertaining to the index as required by the licensor.

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 The Exchange has entered into a license agreement with MSCI Inc. to list this product.

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.

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 the proposed rule change is to amend Exchange Rules 1079 (FLEX Index, Equity and Currency Options), 1009A (Designation of the Index) and 1101A (Terms of Option Contracts) to list and trade P.M. cash-settled, European-style options, including FLEX⁶ options and LEAPS,⁷ on the MSCI EM Index. Specifically, the Exchange proposes to list and trade long-term options on the Full Value MSCI EM Index ("MSCI EM LEAPS").⁸ The Exchange also

⁶ FLEX options are flexible exchange-traded index, equity, or currency option contracts that provide investors the ability to customize basic option features including size, expiration date, exercise style, and certain exercise prices. FLEX index options may have expiration dates within five years. See Exchange Rules 1079 and 1101A.

⁷ LEAPS or Long Term Equity Anticipation Securities are long term options that generally expire from twelve to thirty-nine months from the time they are listed.

⁸ The Commission has previously approved the listing and trading of an exchange-traded fund based on the MSCI EM Index. See Securities Exchange Act Release Nos. 44900 (October 25, 2001) 66 FR 55712 (November 2, 2001) (SR-Amex-2001-45) and 44990

proposes to create a new Rule 1108A entitled “MSCI EM Index” which provides additional detailed information pertaining to the index as required by the licensor including, but not limited to, liability and other representations on the part of MSCI Inc.

The MSCI EM Index is a free float-adjusted market capitalization index⁹ that is designed to measure equity market performance of emerging markets. The MSCI EM Index consists of component securities from the following twenty-one (21) emerging market countries: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Index Design and Composition

The MSCI EM Index is designed to measure equity market performance in the global emerging markets. The Index is maintained by MSCI, Inc. (“MSCI”).¹⁰ The Index was launched on December 31, 1987.

The MSCI EM Index is reviewed on a semi-annual basis. The index review is based on MSCI’s Global Investable Markets Indices Methodology. A description of the methodology is available at

(October 25, 2001), 66 FR 56869 (November 13, 2001) (SR-Amex-2001-45) (approving the listing and trading of shares of a fund based on the MSCI EM Index, among other indexes). The Commission also approved options on Volatility Indexes comprised of options on the iShares MSCI Emerging Markets Index Fund (“EEM”). See Securities Exchange Act Release No. 64551 (May 26, 2011), 76 FR 32000 (June 2, 2011) (SR-CBOE-2011-026). The MSCI EM ETF is one of the twenty most actively traded ETFs.

⁹ The free float adjusted market capitalization is used to calculate the weights of the securities in the indices. MSCI defines the free float of a security as the proportion of shares outstanding that is deemed to be available for purchase in the public equity markets by international investors.

¹⁰ MSCI is a provider of investment decision support tools.

http://www.msci.com/eqb/methodology/meth_docs/MSCI_May11_GIMIMethod.pdf. The MSCI EM Index consists of large and midcap components from countries classified by MSCI as “emerging markets.”

Index Calculation and Index Maintenance

The base index value of the MSCI EM Index was 100, as of December 31, 1987. On June 1, 2011 the index value of the MSCI EM Index was 1166.72. The MSCI EM Index is calculated in U.S. Dollars on a real time basis from the open of the first market on which the components are traded to the closing of the last market on which the components are traded. The methodology used to calculate the value of the MSCI EM Index is similar to the methodology used to calculate the value of other well-known market-capitalization weighted indexes.¹¹ The level of the MSCI EM Index reflects the free float-adjusted market value of the component stocks relative to a particular base date and is computed by dividing the total market value of the companies in each index by its respective index divisor.¹²

Static data is distributed daily to clients through MSCI as well as through major quotation vendors, including Bloomberg L.P. (“Bloomberg”), FactSet Research Systems, Inc. (“FactSet”) and Thomson Reuters (“Reuters”). Real time data is distributed at least every 15 seconds using MSCI’s real-time calculation engine to Reuters, Bloomberg, SIX Telekurs and FactSet.

¹¹ Additional information about the methodology for calculating the MSCI EM Index can be found at:
http://www.msci.com/eqb/methodology/meth_docs/MSCI_May11_GIMIMethod.pdf.

¹² A divisor is an arbitrary number chosen at the starting date of an index to fix the index starting value. The divisor is adjusted periodically when capitalization amendments are made to the constituents of the index in order to allow the index value to remain comparable over time. Without a divisor the index value would change when corporate actions took place and would not reflect the true value of an underlying portfolio based upon the index.

The MSCI EM Index is monitored and maintained by MSCI. Adjustments to the MSCI EM Index are made on a daily basis with respect to corporate events and dividends. The MSCI EM Index is generally updated on a quarterly basis in February, May, August and November of each year to reflect amendments to shares outstanding and free float and full index reviews are conducted on a semi-annual basis in May and November of each year for purposes of rebalancing the index.

Exercise and Settlement Value

The settlement value for expiring options on the MSCI EM Index would be based on the closing prices of the component stocks on the last trading day prior to expiration, usually a Friday. The last trading day for expiring contracts is the last business day prior to expiration, usually the third Friday of the expiration month. The index multiplier is \$100. The Options Clearing Corporation would be the issuer and guarantor.

Contract Specifications

The MSCI EM Index is a broad-based index, as defined in Exchange Rule 1000A. Options on the MSCI EM Index would be European-style and P.M. cash-settled.¹³ The Exchange's standard trading hours for index options (9:30 a.m. to 4:15 P.M. E.T. (Philadelphia Time)), as set forth in Exchange Rules 101 and 1101A at Commentary .01, would apply to options on the MSCI EM Index. The expiration date for this index is the Saturday following the third Friday of the expiration month.

¹³ See proposed Exchange Rule 1009A(g)(i)(2).

The Exchange also notes that the MSCI EM Index is a broad-based index as defined in Exchange Rule 1000A(b)(11).¹⁴ In addition, the Exchange proposes to create specific listing and maintenance standards for options on the MSCI EM Index in Exchange Rule 1009A(g). Specifically, in proposed Rule 1009A(g)(i)(1) through (10) the Exchange proposes to require that the following conditions are satisfied: (1) The index is broad-based, as defined in Rule 1000A(b)(11); (2) Options on the index are designated as P.M.-settled index options; (3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted; (4) The index consists of 500 or more component securities; (5) All of the component securities of the index will have a market capitalization of greater than \$100 million; (6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EM Index; (7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty-two and a half percent (22.5%) of the weight of the index; (8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on the Exchange; (9) The Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and (10) The

¹⁴ See Exchange Rule 1000A(b)(11), which defines a broad-based index as an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

Additionally, the Exchange proposes to require the following maintenance requirements, as set forth in proposed Rule 1009A, for the MSCI EM Index options: (1) the conditions set forth in subparagraphs (g)(i)(1), (2), (3), (4), (7), (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (g)(i)(5) and (6), must be satisfied only as of the first day of January and July in each year; and (2) the total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

The Exchange believes that the modified initial listing requirements are appropriate for trading options on the MSCI EM Index for various reasons. The Exchange believes that a P.M. settlement¹⁵ is appropriate given the nature of this index, which encompasses multiple markets around the world.¹⁶ Specifically, the MSCI EM Index components open with the start of trading in Asia at 7:00 P.M. E.T. (prior day) and closes with the end of trading in Mexico and Peru at 4:00 P.M. E.T. (the next day) as closing prices from Brazil, Chile, Peru and Mexico, including late prices,¹⁷ are accounted for in the closing calculation. The closing index level value is distributed by MSCI around 6:00 P.M. EST each trading day.¹⁸ The index has a higher market

¹⁵ The settlement value of a P.M. settled index option is based on closing prices of the component securities.

¹⁶ The Exchange's Gold/Silver SectorSM Index ("XAU") is a P.M. settled capitalization-weighted index.

¹⁷ Late prices indicates [sic] that while the last real-time stock tick comes in at 4 P.M. E.S.T., the index will stay open for another few minutes to allow any late price information to be obtained. At 4:30 P.M. E.S.T. the final foreign currency rates are applied and the last real-time index value is disseminated.

¹⁸ NYSE Liffe futures based on the MSCI EM Index utilize these P.M. closing prices.

capitalization requirement than other broad based indexes. The MSCI EM Index currently contains more than 800 components and no single component comprises more than 3% to 5% of the index, making it not easily subject to market manipulation. Therefore, because the MSCI EM Index has a large number of component securities, representative of many countries, and trades a large volume with respect to ETFs today, the Exchange believes that the initial listing requirements are appropriate to trade options on this index. In addition, similar to other broad based indexes, the Exchange proposes various maintenance requirements, which require continual compliance and periodic compliance.

Exchange Rules that apply to the trading of options on broad-based indexes also would apply to options on the Full Value MSCI EM Index.¹⁹ The trading of these options also would be subject to, among others, Exchange Rules governing margin requirements and trading halt procedures for index options.²⁰ The Exchange would apply the same position limits as exist today for broad-based index options, namely 25,000 contracts on the same side of the market for the MSCI EM Index option.²¹ All position limit hedge exemptions will apply. The Exchange proposes to apply existing index option margin requirements for the purchase and sale of options on the MSCI EM Index.²² In addition, the Exchange proposes to amend Rule 1079(d)(1) to also note that with respect to FLEX options on the MSCI EM index, the same number of contracts, 25,000, would apply with respect to the position limit.

¹⁹ See generally Exchange Rules 1000A through 1107A (Rules Applicable to Trading Options on Indices) and Exchange Rules 1000 through 1094 (Rules Applicable to Trading of Options on Stocks, Exchange-Traded Fund Shares and Foreign Currencies).

²⁰ See Exchange Rules 721 (Proper and Adequate Margin) and 1047A (Trading Rotations, Halts or Reopenings).

²¹ The exercise limits would also be 25,000 contracts as per Exchange Rule 1002A.

²² See Exchange Rule 721.

The Exchange proposes to set strike price intervals for these options at \$2.50 when the strike price of Full Value MSCI EM Index is below \$200, and at least \$5.00 strike price intervals otherwise. The minimum tick size for series trading below \$3 would be \$0.05 and for series trading at or above \$3 would be \$0.10.²³

Pursuant to Exchange Rule 1101A, the Exchange proposes to open at least one expiration month and one series for each class of index options open for trading on the Exchange.²⁴ The Exchange may open additional series of index options to maintain an orderly market, to meet customer demand or when the market price of the underlying index moves more than five strike prices from the initial exercise price or prices. New series of options may be added until the beginning of the month in which the options contract will expire. Additionally, due to unusual market conditions, the Exchange, in its discretion, may add a new series of options on the index until five (5) business days prior to expiration. Also, the opening of a new series of options shall not affect the series of options of the same class previously opened.

Options on the MSCI EM Index would be subject to the same rules that presently govern all Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits. Exchange Rules are designed to protect public customer trading. Specifically, Rule 1024 prohibits members and member organizations from accepting a customer order to purchase or write an option unless such customer's account has been approved in writing by a designated Options Principal of the Member.²⁵ Additionally, Exchange Rule 1026, regarding suitability, is designed to ensure that options are only sold to customers capable

²³ See Exchange Rule 1034 and proposed Rule 1101A.

²⁴ See Exchange Rule 1101A.

²⁵ See Exchange Rule 1024.

of evaluating and bearing the risks associated with trading in this instrument.²⁶ Further, Exchange Rule 1027 permits members and employees of member organizations to exercise discretionary power with respect to trading options in a customer's account only if the member or employee of a member organization has received prior written authorization from the customer and the account had been accepted in writing by a designated Options Principal.²⁷ Finally, Exchange Rule 1025, Supervision of Accounts, Rule 1028, Confirmations, and Rule 1029, Delivery of Options Disclosure Documents, will also apply to trading in options on the MSCI EM Index.

Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for options on the MSCI EM Index and intends to apply those same procedures that it applies to the Exchange's other index options. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, dated June 20, 1994. The members of the ISG include all of the national securities exchanges. ISG members work together to coordinate surveillance and share information regarding the stock and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses. In addition, the Exchange is an affiliate member of the International Organization of Securities Commissions ("IOSCO"). IOSCO has members from over 100 different countries. Each of the

²⁶ See Exchange Rule 1026.

²⁷ See Exchange Rule 1027. Further, this Rule states that discretionary accounts shall receive frequent review by a Registered Options Principal qualified person specifically delegated such responsibilities under Rule 1025, who is not exercising the discretionary authority.

countries from which there is a component security in the MSCI EM Index is a member of IOSCO. These members regulate more than 90 percent of the world's securities markets. Additionally, the Exchange has entered into various Information Sharing Agreements and/or Memoranda of Understandings with various stock exchanges. Given the capitalization of this index and the deep and liquid markets for the securities underlying the MSCI EM Index, the concerns for market manipulation and/or disruption in the underlying markets are greatly reduced. There is also an active trading volume for the ETFS on the MSCI EM Index.

The Exchange also represents that it has the necessary systems capacity to support the new options series that would result from the introduction of options on the Full Value MSCI EM Index, including LEAPS on the Full Value MSCI EM Index.

Finally, the Exchange proposes to add a new Rule 1108A entitled "MSCI EM Index" to provide additional detailed information pertaining to the index as required by the licensor, including but not limited to, liability and other representations on the part of MSCI Inc.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act²⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act²⁹ in particular, in that it will permit trading in options on Full Value MSCI EM Index pursuant to rules designed to prevent fraudulent and manipulative acts and practices to protect investor and the public interest, and to promote just and equitable principles of trade.

The Exchange believes that because the MSCI EM Index currently contains more than 800 components and no single component comprises more than 3% to 5% of the index, it is not

²⁸ 15 U.S.C. 78f(b).

²⁹ 15 U.S.C. 78f(b)(5).

easily subject to market manipulation. Given the capitalization of this index and the deep and liquid markets for the securities underlying the MSCI EM Index, the concerns for market manipulation and/or disruption in the underlying markets are greatly reduced. There is also an active trading volume for the ETF on the MSCI EM Index. Therefore, because the MSCI EM Index has a large number of component securities, representative of many countries, and trades a large volume with respect to ETFs today, the Exchange believes that the initial listing requirements are appropriate to trade options on this index. In addition, similar to other broad based indexes, the Exchange proposes various maintenance requirements, which require continual compliance and periodic compliance.

Exchange Rules that apply to the trading of options on broad-based indexes also would apply to options on the Full Value MSCI EM Index.³⁰ The trading of these options also would be subject to, among others, Exchange Rules governing margin requirements and trading halt procedures for index options.³¹ The Exchange would apply the same position limits as exist today for broad-based index options, namely 25,000 contracts on the same side of the market for the MSCI EM Index option.³² All position limit hedge exemptions will apply. The Exchange proposes to apply existing index option margin requirements for the purchase and sale of options on the MSCI EM Index.³³ In addition, the Exchange proposes to amend Rule 1079(d)(1) to also

³⁰ See generally Exchange Rules 1000A through 1107A (Rules Applicable to Trading Options on Indices) and Exchange Rules 1000 through 1094 (Rules Applicable to Trading of Options on Stocks, Exchange-Traded Fund Shares and Foreign Currencies).

³¹ See Exchange Rules 721 (Proper and Adequate Margin) and 1047A (Trading Rotations, Halts or Reopenings).

³² The exercise limits would also be 25,000 contracts as per Exchange Rule 1002A.

³³ See Exchange Rule 721.

note that with respect to FLEX options on the MSCI EM index, the same number of contracts, 25,000, would apply with respect to the position limit.

The Exchange represents that it has an adequate surveillance program in place for options on the MSCI EM Index. The Exchange also represents that it has the necessary systems capacity to support the new options series. As stated in the filing, the Exchange has rules in place designed to protect public customer trading.

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 (i) as the Commission may designate up to 90 days of such date 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 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-2011-179 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-2011-179. 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-2011-179 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.³⁴

Elizabeth M. Murphy
Secretary

³⁴ 17 CFR 200.30-3(a)(12).