SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63770; File No. SR-NYSEArca-2010-106)

January 25, 2011

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Approval of Proposed Rule Change Regarding the Listing of Options Series with $1 Strike Prices

I. Introduction

On November 24, 2010, NYSE Arca, Inc. ("NYSE Arca" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to allow the Exchange to modify the operation of the $1 Strike Price Program. The proposed rule change was published for comment in the Federal Register on December 13, 2010.[3] The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange has proposed to amend Rule 6.4 Commentary .04 to modify the operation of the $1 Strike Price Program.

Currently, the $1 Strike Price Program allows the listing of new series with strikes at $1 intervals only if such series have strike prices within $5 of the previous day's closing price in the primary listing market.[4] The proposal would allow the Exchange also to: (a) list new series with $1 interval strike prices within $5 of the official opening price in the primary listing market, and

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 63462 (December 8, 2010), 75 FR 77689 ("Notice").

4 Rule 6.4 Commentary .04(a).

(b) add $1 interval strike prices between the closing price and the opening price, regardless of whether such strikes are within $5 of the previous day's closing price or the day's opening price.

In support of allowing the listing of $1 interval strike between the closing and opening prices, the Exchange stated that, on occasion, the price movement in an underlying security has been so great that listing series with strikes within $5 of the previous day's closing price and the day's opening price would leave a gap in the continuity of strike prices. Thus, if an issue closes at $14 one day, and the next day opens above $27, the $21 and $22 strikes would be more than $5 from either benchmark. The Exchange proposed that any such discontinuity be avoided by allowing the listing of options on all $1 interval strike prices that fall between the previous day's closing price and the opening price.

The Exchange also has proposed to prohibit the listing of $2.50 interval strikes below $50 in all classes chosen for the $1 Strike Price Program, and in all long-term option series. According to the Exchange, this change is designed to eliminate discontinuities in strike prices and a lack of parallel strikes in different expiration months of the same issue. Currently, Exchange rules provide that the Exchange may not list series within $1 strike price intervals within $0.50 of an existing strike price in the same class, unless the class in question has been selected to participate in the $0.50 Strike Program.[5] In addition, Exchange rules currently stipulate that the Exchange may not list series with $1 strike price intervals for any long-term options (i.e., options having greater than nine months to expiration) under the $1 Strike Price Program.[6]

---

5 See id.

6 See id. The standard strike interval for Long-Term Equity Option Series (LEAPs) is $2.50 where the strike price is $25 or less. See Rule 6.4(f). However, under a separate provision of the rules, the Exchange may list $1 strike prices up to $5 in LEAPS in up to 200 option classes on individual stocks, provided the $1 intervals are not within $0.50 of

However, as the Exchange noted in its proposal, due to the prohibition on $1 strike price intervals within $0.50 of an existing strike price, the existence of series with $2.50 interval strikes for classes selected for the $1 Strike Price Program could lead to discontinuities in strike prices and a lack of parallel strikes in different expiration months of the same issue. For example, if a $12.50 strike series was open in a class selected for the $1 Strike Price Program, the Exchange would not be able to list series with a $12 or $13 strike, potentially resulting in sequence of strike prices at irregular intervals (i.e., $10, $11, $12.50, $14, and $15).

To replace these now-forbidden $2.50 interval strikes, the Exchange proposes to allow the listing of one additional series within each natural $5 interval, as follows. The Exchange proposed to permit the listing of a series with a strike $2 above the $5-interval strike for each such $5-interval strike above the price of the underlying security at the time of listing. Conversely, the Exchange's proposal would permit the listing of a series with a strike $2 below the $5-interval strike for each such $5-interval strike below the price of the underlying security at the time of listing. For example, if the underlying security was trading at $19, the Exchange could list a $27 strike between the $25 and the $30 strikes, and a $32 strike between the $30 and $35 strikes; as well as a $13 strike between the $10 and $15 strikes, and an $8 strike between the $10 and $15 strikes. The Exchange also notes that each such additional series may be listed only if such listing is consistent with the Options Listing Procedures Plan ("OLPP") Provisions in Rule 6.4A.[7] The foregoing provisions would apply to all classes selected for the $1 Strike Price

---

an existing series with a $2.50 strike price. See Rule 6.4 Commentary .04(c). This provision would not change under the current proposal.

7 Rule 6.4A codifies the limitation on strike price ranges outlined in the OLPP, which, except in limited circumstances, prohibits options series with an exercise price more than 100% above or below the price of the underlying security if that price is $20 or less. If the price of the underlying security is greater than $20, an exchange may not list new

Program, both with respect to standard and long-term options. In addition, since series with $1-interval strikes are not permitted for most long-term options, the proposal would allow the Exchange to list the long-term strike that is $2 above the $5-interval just below the underlying price at the time of listing. For example, if the underlying security is trading at $21.25, this provision would allow the Exchange to add a $22 strike ($2 above the $20 strike) for the long-term option series.

In support of its proposal, the Exchange stated that the proposed rule change seeks to reduce investor confusion resulting from discontinuous strike prices that has arisen in the operation of the $1 Strike Price Program, by providing a consistent application of strike price intervals for issues in the $1 Strike Price Program.

The Exchange further represented that it has the necessary systems capacity to support the potential increase in new options series that will result from the proposed changes to the $1 Strike Price Program.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[8] Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[9] which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices, to remove impediments to and perfect the mechanism of a free

---

options series with an exercise price more than 50% above or below the price of the underlying security.

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

9 15 U.S.C. 78f(b)(5).

and open market and a national market system, and, in general, to protect investors and the public interest.

As the Exchange notes, the proposal is intended to reduce investor confusion resulting from the operation of the $1 Strike Price Program by reducing the occurrences of discontinuities in strike prices and non-parallel strikes in different expiration months of the same issue. The Commission believes that the proposal strikes a reasonable balance between the Exchange's desire to accommodate market participants and the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes and market fragmentation. The Commission expects the Exchange to monitor the trading and quotation volume associated with the additional options series listed as a result of this proposal and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRA's, and vendors' automated systems.

In approving this proposal, the Commission notes that Exchange has represented that it has the necessary systems capacity to support the potential increase in new options series that will result from the proposed changes to the $1 Strike Price Program.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[10] that the proposed rule change (SR-NYSEArca-2010-106) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[11]

Elizabeth M. Murphy
Secretary

---

[10] 15 U.S.C. 78s(b)(2).

[11] 17 CFR 200.30-3(a)(12).