

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-60455; File No. SR-Phlx-2009-62)

August 6, 2009

Self-Regulatory Organizations; NASDAQ OMX PHLX, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Automatic Allocations of Options on Related Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on July 31, 2009, NASDAQ OMX PHLX, Inc. (“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. Phlx has designated the proposed rule change as constituting a non-controversial rule change under Rule 19b-4(f)(6) under the Act,<sup>3</sup> which renders the proposal effective upon filing with the Commission. 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 proposes to amend Phlx Rule 506 (Allocation Application) regarding automatic allocation of options on related securities.

The text of the proposed rule change is available on the Exchange’s Web site at <http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLX/Filings/>, at the principal office of the Exchange, 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.

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

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 amendments proposed to Phlx Rule 506 are based on and similar to Commentary .05 to AMEX Rule 27.<sup>4</sup>

The purpose of the proposed rule change is to amend Rule 506 to indicate that new options that are related to currently allocated options (“Related Options”) shall be automatically allocated to the specialist unit that is already the current specialist in option(s) on the underlying security(ies) (“Current Specialist”).<sup>5</sup> If the Related Options are not automatically allocated, the Exchange may, nonetheless, allocate the Related Options to the Current Specialist if the Exchange determines that the trading characteristics of the Related Options to be allocated are

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<sup>4</sup> See Securities Exchange Act Release No. 45260 (January 9, 2002), 67 FR 2255 (January 16, 2002)(SR-AMEX-2001-19)(approval order regarding AMEX Rules 26 and 27). See also Securities Exchange Act Release No. 44972 (October 23, 2001), 66 FR 55031 (October 31, 2001)(SR-AMEX-2001-19) (notice of filing regarding, among other things, Commentary .05 to AMEX Rule 27). The American Stock Exchange LLC was purchased in 2008 by NYSE Euronext and is now known as NYSE Amex LLC (AMEX).

<sup>5</sup> Exchange specialists are allocated classes of options by the Exchange in relation to assisting in the maintenance, insofar as reasonably practicable, of a fair and orderly market in such options. See Rule 1020.

similar to the options already allocated to the Current Specialist.<sup>6</sup>

The allocation and re-allocation process for classes of options to specialist units and individual specialists on the Exchange is found in Rules 500 – 599 (the “Allocation Rules”), which rules are administered by the exchange.<sup>7</sup> The Allocation Rules also deal with, among other things: application for becoming and appointment of specialists; application for becoming and approval of Streaming Quote Traders (“SQTs”)<sup>8</sup> and Remote Streaming Quote Traders (“RSQTs”)<sup>9</sup> and assignment of options to them; and specialist, SQT, and RSQT performance evaluations. The Allocation Rules also indicate under what circumstances new allocations may not be made. Supplementary Material .01 to Rule 506, as an example, states that a specialist may not apply for a new allocation for a period of six months after an option allocation was taken away from the specialist in a disciplinary proceeding or an involuntary reallocation proceeding (“Allocation Preclusion”).<sup>10</sup> The current Allocation Rules do not contain guidelines

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<sup>6</sup> Related Options, Related Securities, and Current Specialist are defined in proposed Supplementary Material .02 to Rule 506.

<sup>7</sup> See Rule 500. See also Securities Exchange Act Release No. 59924 (May 14, 2009), 74 FR 23759 (May 20, 2009)(SR-Phlx-2009-23).

<sup>8</sup> An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit option quotations electronically in eligible options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. See Rule 1014(b)(ii)(A). See also Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009)(approval order regarding enhancements to opening, linkage and routing, quoting, and order management processes in the Exchange’s electronic options order entry, trading, and execution system PHLX XL II.) [sic]

<sup>9</sup> An RSQT is an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Exchange Rule 1014(b)(ii)(B).

<sup>10</sup> See Rule 960 et seq. for disciplinary procedures and Allocation Rules for reallocation procedures.

regarding allocation of Related Options.

This filing would amend Rule 506 to clarify that Related Options will be automatically allocated, under conditions set forth in new Supplementary Material .02, to the Current Specialist that is already allocated options overlying securities that are related to securities that the new options overly.

In particular, Supplementary Material .02 in subsection (a) defines the term “Related Securities”<sup>11</sup> underlying options to mean, but not be limited to:

- securities of a partially or wholly owned subsidiary;
- securities that are convertible into the securities of the issuer;
- warrants on securities of the issuer;
- securities issued in connection with a name change;
- securities issued in a reverse stock split;
- contingent value rights;
- “tracking” securities designed to track the performance of the underlying security or corporate affiliate thereof;
- securities created in connection with the merger or acquisition of one or more companies;
- securities created in connection with a “spin-off” transaction;
- convertible on non-convertible senior securities; and
- securities into which a listed security is convertible,

where such Related Securities emanate from or are related to securities underlying options that are currently allocated to a specialist on the Exchange (“Currently Allocated Options”).

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<sup>11</sup> For purposes of Supplementary Material .02, Related Securities does not mean Exchange Traded Funds.

Subsection (b) to Supplementary Material .02 goes on to state that while unallocated new Related Options shall be automatically allocated to the Current Specialist, no automatic allocation can occur if the Current Specialist is subject, pursuant to Supplementary Material .01, to an Allocation Preclusion because of a disciplinary proceeding or involuntary reallocation proceeding.<sup>12</sup> Where there is no automatic allocation the Exchange may decide to allocate Related Options to the Current Specialist that is already trading allocated related options if the Exchange determines that the trading characteristics of the Related Options to be allocated are similar to the already allocated options.<sup>13</sup>

The following example illustrates how the proposed allocation process would work. In 2008, Wachovia Corporation (WB) was acquired by Wells Fargo & Company (WFC), with WFC being the surviving company (the “merger”). At the time of the merger, which was effective December 31, 2008, options on the surviving company WFC were already listed and being traded by one specialist (the “WFC Specialist”) and options on WB were listed and being traded on the Exchange by another specialist (the “WB Specialist”). Under the current allocation structure, the WB Specialist would have to continue to act as a specialist vis a vis WB options for the purpose of trading the adjusted WB option series until all open interest traded out or expired. The WFC Specialist would, at the same time, trade the WFC options. Under the automatic allocation process proposed in this filing, in that WFC and WB would be Related Securities, WFC options would be Currently Allocated Options, the WFC Specialist would be the Current Specialist, and the adjusted WB options series would be new Related Options, by

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<sup>12</sup> Although automatic allocation of New Options pursuant to Supplementary Material .02 will not require the Exchange to make an allocation determination as it would with regular option allocations, the Exchange will continue to perform other allocation-related duties such as, for example, written notification. See Rule 506.

<sup>13</sup> An ETF (only) specialist will not be eligible to receive automatic allocations for the duration of the Allocation Preclusion applicable to him or her.

operation of Supplementary Material .02, the Related Options would be automatically allocated to the Current Specialist. As such, the WFC Specialist would assume specialist privileges in the WFC options *and* the adjusted WB option series, therefore becoming the specialist for all options related to the merger of WFC and WB.<sup>14</sup>

The Exchange believes that the automatic allocation of Related Options to Current Specialists as proposed herein should increase the efficiency and speed of the allocation of options that are logically related to each other, to the benefit of Exchange members and traders and the public.<sup>15</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>16</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>17</sup> 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 providing for automatic allocation to an Exchange specialist of options that are related to each other.

### 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.

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<sup>14</sup> It is assumed, for purposes of this example, that the Current Specialist is not subject to an Allocation Preclusion as defined in Supplementary Material .01.

<sup>15</sup> The Exchange has made conforming, technical changes to proposed Rule 506 to integrate the proposed language into its current rules and to correct a typographical error.

<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

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

Because the foregoing 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, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>18</sup> and Rule 19b-4(f)(6) thereunder.<sup>19</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate 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.

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

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>19</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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. Phlx has satisfied this requirement.

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2009-62 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-2009-62. 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, 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 such 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 publicly available. All submissions should refer to File



Number SR-Phlx-2009-62 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>20</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).