

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-63132; File No. SR-Phlx-2010-118)

October 19, 2010

Self-Regulatory Organizations; Order Approving Proposed Rule Change by NASDAQ OMX PHLX, Inc. to expand the \$.50 Strike Price Program

On August 25, 2010, NASDAQ OMX PHLX, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> a proposed rule change to expand the Exchange’s \$.50 Strike Price Program (“\$.50 Strike Program” or “Program”). The proposed rule change was published for comment in the Federal Register on September 8, 2010.<sup>4</sup> There were no comments on the proposed rule change. This order approves the proposed rule change.

The Exchange proposes to amend Commentary .05 to Exchange Rule 1012, Series of Options Open for Trading, regarding the \$.50 Strike Program to: (i) expand the permitted price range of the \$.50 Strike Program from \$1.00 - \$3.50 to \$0.50 - \$5.50; (ii) raise the threshold of the previous day’s closing price of the underlying security from \$3.00 to \$5.00; and (iii) expand the number of options classes permitted under the Program from 5 to 20.

Currently, Commentary .05 to Exchange Rule 1012 permits strike price intervals of \$.50 or greater beginning at \$1.00 where the strike price is \$3.50 or less, but only for option classes whose underlying security closed at or below \$3.00 in its primary market

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> See Securities Exchange Act Release No. 62799 (August 25, 2010), 75 FR 54662 (“Notice”).

on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts per day as determined by The Options Clearing Corporation during the preceding three calendar months. Further, the listing of \$.50 strike prices is limited to options classes overlying no more than 5 individual stocks as specifically designated by the Exchange. The Exchange is currently restricted from listing series with \$1 intervals within \$.50 of an existing strike price in the same series, except that strike prices of \$2, \$3, and \$4 shall be permitted within \$.50 of an existing strike price for classes also selected to participate in both the \$.50 Strike Program and the \$1 Strike Program.<sup>5</sup>

The Exchange also proposes a corresponding amendment to Commentary .05(a)(i)(B) of Exchange Rule 1012 to add \$5 to the list of strike prices permitted within \$.50 of an existing strike price in the same series for classes selected for both programs.

In its filing with the Commission, the Exchange stated that the number of \$.50 strike options traded on the Exchange has continued to increase since the inception of the Program. The Exchange stated that the proposal would expand \$.50 strike offerings to market participants and thereby should enhance their ability to tailor investing and hedging strategies and opportunities in a volatile marketplace. The Exchange further stated that it believes an expansion of the \$.50 Strike Program would allow investors to better enhance returns and manage risk by providing them with significantly greater flexibility in the trading of equity options that overlie lower price stocks by allowing them to establish equity options positions that are better tailored to meet their investment,

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<sup>5</sup> See Exchange Rule 1012, Commentary .05(a)(i)(B) referring to the \$1 Strike Program.

trading and risk. In addition, the Exchange represented that \$0.50 strikes have had no impact on capacity.

After careful review, the Commission finds that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>6</sup> In particular, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>7</sup> which requires, among other things, that the rules of a national securities exchange be 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.

Specifically, the Commission believes that the proposal to expand the \$.50 Strike Program should provide investors with added flexibility in the trading of equity options and further the public interest by allowing investors to establish equity options positions that are better tailored to meet their investment objectives. The Commission also believes that the proposal strikes a reasonable balance between the Exchange's desire to accommodate market participants by offering a wider array of investment opportunities and the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes. The Commission expects that the Exchange will monitor the trading 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.

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<sup>6</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>7</sup> 15 U.S.C. 78f(b).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>8</sup> that the proposed rule change (SR-Phlx-2010-118) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>8</sup> 15 U.S.C. 78s(b)(2).

<sup>9</sup> 17 CFR 200.30-3(a)(12).