

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69732; File No. SR-Phlx-2013-63)

June 11, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change in Order to Disseminate a Spot Price for Treasury Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 3, 2013, 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 the Substance of the Proposed Rule Change

The Exchange proposes to disseminate a spot price for its physically-settled options on certain U.S. Treasury notes and U.S. Treasury bonds (“Treasury Options”). The proposed rule change will be implemented on a date that is on, or shortly after, the 30th day following the date of the filing.

II. Self-Regulatory Organization’s Statement of the Purpose of, and the 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

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

<sup>2</sup> 17 CFR 240.19b-4.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

On October 4, 2012, the Commission approved the Exchange’s proposed rule change for the listing and trading on the Exchange of Treasury Options (the “Listing Filing”).<sup>3</sup> The purpose of this proposed rule change is to permit the Exchange to disseminate a spot value for the on-the-run U.S. Treasury notes and U.S. Treasury Bonds underlying the Exchange’s Treasury Options over the facilities of the Options Price Reporting Authority (“OPRA”).

In the Listing Filing the Exchange explained that the prices of Treasury securities are widely disseminated, active, and visible to traders and investors, from numerous sources including broker dealers. It explained that there is a high level of price transparency for Treasury securities because of extensive price dissemination to the investing public (e.g., commercial and investment banks, insurance companies, pension funds, mutual funds and retail investors) of price information by information vendors, including an industry-sponsored corporation, Govpx, that disseminates price and real-time trading volume information for Treasury securities via

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<sup>3</sup> See Securities Exchange Release Act No. 67976 (October 4, 2012), 77 FR 61794 (October 11, 2012) (SR-Phlx-2012-105) (approval order). Subsection (a)(1) of Rule 1001D states that the term “Treasury securities” (also known as Treasury debt securities) means a bond or note or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal or interest by, the United States or a corporation in which the United States has a direct or indirect interest (except debt securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association). Securities issued or guaranteed by individual departments or agencies of the United States are sometimes referred to by the title of the department or agency involved (e.g., a “Treasury security” is a debt instrument that is issued by the United States Treasury). Phlx Treasury Options are European-style options on Treasury notes and bonds with a unit of trading of \$10,000.

interdealer broker screens. The Exchange also noted that the prices are also available from exchanges that trade derivatives on Treasuries<sup>4</sup> and that retail brokers (e.g., Fidelity, TD Ameritrade, E\*TRADE, Charles Schwab, Interactive Brokers, and Scottrade) offer market access and the ability to purchase and sell Treasury securities on a real time basis, similarly to equity securities.

In the Listing Filing, the Exchange also noted that it was considering offering a Treasury data feed to those Exchange members that may desire to acquire such data from the Exchange. The Exchange currently secures real-time Treasury prices (data) from BondDesk Group LLC (“BondDesk”), a market data provider, and uses this data in support of the Exchange’s market, regulatory and surveillance operations.<sup>5</sup> For example, this data is now used for the purpose of opening and determining settlement values for Treasury options. The Exchange now proposes to also use the BondDesk market data in order to provide a Treasury data feed to Exchange members. Specifically, the Exchange will calculate the midpoint of BondDesk’s real-time bid and ask quotations for the on-the-run 10-year Treasury note and the 30-year Treasury bond (the “BondDesk On-the-Run Treasury Midpoint” or “BTM”) and distribute the BTM to OPRA

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<sup>4</sup> See, for example, Chicago Mercantile Exchange Group (“CME”) offering futures as well as options on Treasury securities, at <http://www.cmegroup.com/trading/interest-rates/on-the-run-us-treasuryfutures.html>. CME Treasury futures volumes in the year 2011 include: 315,903,050 contracts on the 10 year Treasury note; and 92,065,406 contracts on the 30 year Treasury bond. The Exchange notes that while Treasury options have a face value of \$10,000 per contract (Rule 1008D), CME futures products have a face value of \$100,000.

<sup>5</sup> BondDesk is a provider of enterprise-wide fixed income solutions to many of the top broker-dealers in North America. The BondDesk Alternative Trading System (ATS), run by broker-dealer subsidiary BondDesk Trading LLC, member FINRA and SIPC, provides real-time Treasury prices (data) generated from the nation's largest retail bond trading venue. BondDesk data currently is not redistributed by Phlx but can be received directly by contacting BondDesk.

pursuant to the Exchange's existing agreements with OPRA.<sup>6</sup> The Exchange will alert market participants to the introduction of the new BTM by issuing an Options Trader Alert. The Exchange will update its website to include a link to the Options Trader Alert which will describe the BTM and which will itself include a link to this proposed rule change.

The BTM will be an Exchange-calculated value using the midpoint of the bid/ask quotes currently provided by BondDesk for the on-the-run 10-year Treasury Note and 30-Year Treasury Bond. The value will be calculated by the Exchange and disseminated via OPRA with each received quote from BondDesk and at least once every five seconds, every trading day from 9:25 am to 4:00 pm Eastern Time. For example, if the bid/offer is 99.50 x 99.60, then the midpoint value of 99.55 would be disseminated immediately. If no quotes are being received from BondDesk, the Exchange will manually cease disseminating the BTM until such time as the Exchange once again begins receiving quotes. If trading in the Treasury Option is halted, a midpoint value will continue to be calculated and disseminated as it does not drive the specialist's quotes and is merely a reference point for trading.

BTM values will be sent out to two decimal places (xx.xx or xxx.xx). If the calculation of the midpoint extends beyond two decimal places, the values will be rounded, not truncated, to the nearest penny.

Example 1: If the most recent bid/offer is 99.59 x 99.61, the midpoint would be 99.60.

Example 2: If the bid/offer is 97.6563 x 97.6953, then the midpoint would be 97.68 (rounded up from 97.67578).

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<sup>6</sup> Currently, the Exchange uses the midpoint of BondDesk's real-time bid and ask quotations to determine settlement prices. BondDesk data other than the midpoint is used in support of the Exchange's other market, regulatory and surveillance operations.

Example 3: If the bid/offer is 99.5703 x 99.5781, then the midpoint would be 99.57 (rounded down from 97.57422).

Example 4: If the bid/offer is 99.50 x 99.55, then the midpoint would be 99.53 (rounded up from 97.525).

Finally, The [sic] BTM will be represented by a 3 character symbol which will change with introduction of each new Treasury auction.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>7</sup> in general, and with Section 6(b)(5) of the Act,<sup>8</sup> in particular, which requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, because it should provide additional information to market participants interested in Treasury Options. The Exchange believes that allowing the Exchange to provide additional spot market information to be disseminated over OPRA should encourage trading of Treasury Options, which in turn should enhance competition and allow traders and investors - including large and institutional investors and retail and public investors - to more effectively tailor their investing and hedging decisions in the current challenging economic climate.

### B. Self-Regulatory Organization's Statement on Burden on Competition

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

<sup>8</sup> 15 U.S.C. 78f(b)(5).

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the proposal does not impose an intra-market burden on competition, because it will be available to all market participants who receive OPRA messages. Nor will the proposal impose a burden on competition among the options exchanges, because the proposal simply adds information that should be helpful to market participants. The proposal will allow the Exchange to provide useful pricing information that in turn should encourage the use of the Exchange's Treasury Options, a relatively new and innovative options product, giving market participants the ability to significantly expand their trading and hedging capabilities.

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)(ii) of the Act<sup>9</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>10</sup>

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiver

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>10</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, along with a brief description and text of 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.

of the operative delay is consistent with the protection of investors and the public interest because doing so will expedite the provision to market participants of additional information concerning the spot price of Treasury securities, at no additional cost, which should enable market participants to make more informed investment decisions with respect to Treasury Options. Therefore, the Commission designates the proposal operative upon filing.<sup>11</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend 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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-63 on the subject line.

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<sup>11</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2013-63. 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 St. 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 available publicly. All submissions should refer to File Number SR-Phlx-2013-63, 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>12</sup>

Kevin M. O'Neill  
Deputy Secretary

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