

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="42"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2013"/> - * <input type="text" value="94"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by NASDAQ OMX PHLX LLC.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) <input type="checkbox"/> Section 806(e)(2) <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

A Proposed Rule Change Regarding the Short Term Option Series Program.

**Contact Information**  
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * <input type="text" value="Jurij"/>	Last Name * <input type="text" value="Trypupenko"/>
Title * <input type="text" value="Associate General Counsel"/>	
E-mail * <input type="text" value="jurij.trypupenko@nasdaqomx.com"/>	
Telephone * <input type="text" value="(301) 978-8132"/>	Fax <input type="text" value="(301) 978-8472"/>

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,  
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date <input type="text" value="09/11/2013"/>	Executive Vice President and General Counsel
By <input type="text" value="Edward S. Knight"/>	<div style="border: 1px solid black; width: 100%; height: 40px; background-color: #e0e0e0;"></div>
(Name *)	<div style="border: 1px solid black; width: 100%; height: 20px; background-color: #e0e0e0; display: flex; justify-content: center; align-items: center;">Edward S Knight,</div>

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies**

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") is filing with the Securities and Exchange Commission ("Commission") a proposal to amend Rule 1012 (Series of Options Open for Trading) and Rule 1101A (Terms of Option Contracts) to expand the Short Term Option Program ("STO Program" or "Program")<sup>3</sup> so that the Exchange may: select fifty option classes on which STOs may be opened; list or add STOs within fifty percent (50%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is greater than \$20, or within one hundred percent (100%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is less than or equal to \$20; add an STO strike price interval of \$2.50 or greater where the strike price is above \$150; and in general harmonize the different parts of the Program.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

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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> STOs, also known as "weekly options" as well as "Short Term Options", are series in an options class that are approved for listing and trading on the Exchange in which the series are opened for trading on any Thursday or Friday that is a business day and that expire on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively. See Rules 1000(b)(44), 1000A(b)(16), Commentary .11 to Rule 1012 and Rule 1101A(b)(vi) regarding the STO Program.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on July 17, 2013. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Jurij Trypupenko, Associate General Counsel, NASDAQ OMX Group, at (301) 978-8132.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The purpose of this proposed rule change is to amend Rule 1012 and Rule 1101A to expand the STO Program for non-index and index options so that the Exchange may: select fifty option classes on which STOs may be opened; list or add STOs within fifty percent (50%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is greater than \$20, or within one hundred percent (100%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is less than or equal to \$20; add an STO strike price interval of \$2.50 or greater where the strike price is above \$150; and in general harmonize the different parts of the Program.

The STO Program, which was initiated in 2010,<sup>4</sup> is codified in Commentary .11 to Rule 1012 for non-index options (e.g. equity, currency, and exchange traded fund (“ETF”) options) and Rule 1101A(b)(vi) for index options. These sections currently state that after an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day series of options on no more than thirty option classes that expire on the Friday of the following business week that is a business day.<sup>5</sup> In addition to the thirty option class limitation, there is also a limitation that no more than twenty series for each expiration date in those classes that may be opened for trading.<sup>6</sup> Furthermore, the strike price of each short term

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<sup>4</sup> See Securities Exchange Act Release No. 62296 (June 15, 2010), 75 FR 35115 (June 21, 2010)(SR-Phlx-2010-84)(notice of filing and immediate effectiveness permanently establishing STO Program on the Exchange).

<sup>5</sup> The increase in the number of option issues that could be opened pursuant to the STO Program was approved in 2011. See Securities Exchange Act Release No. 65776 (November 17, 2011), 76 FR 72482 (November 23, 2011)(SR-Phlx-2011-131)(approval order).

<sup>6</sup> However, if the Exchange opens less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current price of the underlying security. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current price of the underlying security provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened. Commentary .11(d) to Rule 1012 and Rule 1101A(b)(vi)(D). The Exchange proposes to change twenty (20) Short Term Option Series to thirty (30) Short Term Option Series. This is done to achieve consistency with other proposed rule changes.

option has to be fixed with approximately the same number of strike prices being opened above and below the value of the underlying security at about the time that the STOs are initially opened for trading on the Exchange, and with strike prices being within thirty percent (30%) above or below the closing price of the underlying security from the preceding day. The Exchange proposes only to increase the number of STO classes that may be opened, match the opening of additional STO strikes to what is permissible per the OLPP,<sup>7</sup> add new strike prices increments that may be used in the STO Program, and in general harmonize the different parts of the Program (e.g. initial listings and additional series).

In terms of the strike price intervals, the STO Program currently allows that the interval between strike prices on STOs may be (i) \$0.50 or greater where the strike price

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<sup>7</sup> The full name of the OLPP (which is applicable to all option exchanges) is Plan For The Purpose of Developing and Implementing Procedures Designed to Facilitate the Listing and Trading of Standardized Options Submitted Pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934. With regard to the listing of new series on equity, ETF, or trust issued receipt (“TIRs”) option classes, subsection 3.(g)(i) of the OLPP states, in relevant part, that the exercise price of each option series listed by an exchange that chooses to list a series of options (known as the Series Selecting Exchange) shall be fixed at a price per share which is reasonably close to the price of the underlying equity security, ETF, or TIR at or about the time the Series Selecting Exchange determines to list such series. Except as provided in subparagraphs (ii) through (iv) of the OLPP, if the price of the underlying security is less than or equal to \$20, the Series Selecting Exchange shall not list new option series with an exercise price more than 100% above or below the price of the underlying security. If the price of the underlying security is greater than \$20, the Series Selecting Exchange shall not list new option series with an exercise price more than 50% above or below the price of the underlying security.

Subsection 3.(g)(i) of the OLPP indicates that an option series price has to be reasonably close to the price of the underlying security and must not exceed a maximum of 50% or 100%, depending on the price, from the underlying. The Exchange’s proposal, while conforming to the current structure of the Exchange’s STO rules, is similar in practical effect to the noted OLPP subsection.

is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all classes that participate in the STO Program; or (ii) \$0.50 for classes that trade in one dollar increments in Related non-STOs<sup>8</sup> and that participate in the STO Program. Related non-STO series shall be opened during the week prior to the week that such Related non-STO series expire in the same manner as permitted in Commentary .11 to Rule 1012 and in the same strike price intervals that are permitted in Commentary .11 to Rule 1012.<sup>9</sup> This proposal retains the fundamental limitations of the STO Program while proposing specific changes as described below.

### The Proposal

First, the Exchange proposes to increase the number of STO classes that may be opened after an option class has been approved for listing and trading on the Exchange. Specifically, the Exchange proposes in Commentary .11(a) of Rule 1012 and Rule 1101A(b)(vi)(A) that the Exchange may select up to fifty currently listed option classes on which Short Term Option Series may be opened.<sup>10</sup> The Exchange believes that this proposed moderate increase is needed and advisable in light of the demonstrated acceptance and popularity of the STO Program among market participants, as discussed below.

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<sup>8</sup> Related non-STOs are non-STOs that have similar options with a longer expiration cycles (e.g. monthly RUT options would be Related non-STOs to weekly RUT options).

<sup>9</sup> Commentary .11(e) to Rule 1012 and Rule 1101A(b)(vi)(E).

<sup>10</sup> For proposed rule changes regarding weekly index options pursuant to Rule 1101A(b)(vi), throughout this filing the reference is to index option classes and series.

Second, the Exchange proposes to indicate under what circumstances, subsequent to opening initial STO classes, additional STO strike prices may be added. Specifically, the Exchange proposes in Commentary .11(c) of Rule 1012 and Rule 1101A(b)(vi)(C) that any initial series listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security. This proposal is in line with the process for adding new series of options found in subsection 3.(g)(i) of the OLPP, and harmonizes the Program internally. The Exchange believes that this proposal is a reasonable and desirable enhancement to the STO Program.

Third, the Exchange proposes changes to Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A to indicate that any additional strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security. This is done so that the parameters for opening STOs and adding strike prices are in conformity. The Exchange proposes additional changes to Commentary .11(d) and subsection (b)(vi)(D) to indicate



that if the Exchange has opened less than thirty (30) Short Term Option Series for a Short Term Option Expiration Date, the Exchange may also open additional strike prices of Short Term Option Series that are not more than 50% above or below the current price of the underlying security (if the price is greater than \$20); provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers.<sup>11</sup> This is done to conform the additional strike price methodology with the proposed 50% listing standard in the same subsections,<sup>12</sup> while retaining the demonstrated interest language that may be useful in unforeseen circumstances.

Fourth, the Exchange also proposes to simplify the Delisting Language in Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A, which currently contains a range methodology (at least 10% but not more than 30% above or below the current price of the underlying),<sup>13</sup> to indicate that the Exchange will delist any

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<sup>11</sup> Market Makers trading for their own account are not considered when determining customer interest. Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A.

<sup>12</sup> The Exchange believes that the 100% standard proposed for initial listings where the price of the underlying is below \$20 is adequate and does not need to be repeated for additional series adds.

<sup>13</sup> Currently, the Delisting Language states: “In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest,

series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week.

The Exchange believes that like its other proposals, the delisting proposal will add clarity and certainty to the STO process once it is implemented across all exchanges. All options exchanges that have their own weeklies programs have similar rules regarding their own programs, and tend to emulate STO changes that are initiated by other options exchanges; the Exchange believes that other exchanges will likely copy all or portions of this proposed filing.

Fifth, the Exchange proposes to add \$2.50 strike price intervals to the STO Program. Specifically, the Exchange proposes in Commentary .11(e) of Rule 1012 and Rule 1101A(b)(vi)(E) to indicate that the interval between strike prices on STOs may be \$2.50 or greater where the strike price is above \$150. This proposed change complements the current STO strike price intervals, which are \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all classes that participate in the STO Program.<sup>14</sup> The proposed \$2.50 strike

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the Exchange may list additional series, in excess of the 30 allowed under Commentary .11, that are between 10% and 30% above or below the price of the underlying security”. Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A. See Securities Exchange Act Release No. 70116 (August 5, 2013), 78 FR 48754 (August 9, 2013)(SR-Phlx-2013-79)(notice of filing and immediate effectiveness regarding delisting series and opening up to five consecutive weekly expirations of STOs).

<sup>14</sup> STO strike price intervals may also be in \$1 increments in Related non-Short Term Options that participate in the STO Program. This requirement, like all other STO requirements, is similar for index options and non-index options. Commentary .11 of Rule 1012 and Rule 1101A(b)(vi).

price interval addresses the issue that above a \$150 strike price STO strike price intervals must currently be an exceedingly wide \$5.00 or greater.<sup>15</sup>

Additionally, the Exchange proposes non-substantive housekeeping changes in subsection (b)(vi)(D) of Rule 1101A. This is simply to make clear that the subsection deals with STOs for indexes. The Exchange also proposes to remove reference to between 10% and 30% above or below the price of the underlying security. This is no longer used as a standard.

The principal reason for the proposed expansion is market demand for additional STO classes and series and a desire to make the STO Program more effective. There is continuing strong customer demand for having the ability to execute hedging and trading strategies via STOs, particularly in the current fast and volatile multi-faceted trading and investing environment that extends across numerous markets and platforms<sup>16</sup> and includes market moving events such as significant market volatility, corporate events, or large market, sector, or individual issue price swings. The Exchange has been requested by traders and other market participants to expand the STO Program to allow additional STO offerings and increased efficiency.

In order that the Exchange not exceed the current thirty option class and twenty option series restriction, the Exchange has on occasion had to turn away STO customers (traders and investors) because it could not list, or had to delist, STOs or could not open adequate STO Series because of restrictions in the STO Program. This has negatively

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<sup>15</sup> See, e.g., Commentary .05 to Rule 1012 and Rule 1101A.

<sup>16</sup> These include, without limitation, options, equities, futures, derivatives, indexes, exchange traded funds, exchange traded notes, currencies, and over the counter instruments.

impacted investors and traders, particularly retail public customers, who have continued to request the Exchange not to remove short term option classes or add short term option classes, or have requested the Exchange to expand the STO Program so that additional STO classes and series could be opened that would allow the market participants to execute trading and hedging strategies.<sup>17</sup> There are, as discussed, substantial benefits to market participants having the ability to trade eligible option classes within the STO Program. Furthermore, the Exchange supports the objective of responding to customer need to enhance successful programs to make them more efficient for hedging and trading purposes.

The Exchange notes that the STO Program has been well-received by market participants, in particular by retail investors. The volume of STO trading has increased by 132% since the beginning of 2011<sup>18</sup> and continues to grow, such that currently STOs represent 20% of trading volume on the Exchange and 31% of trading volume across all option exchanges.<sup>19</sup> The Exchange believes that weekly expiration options will continue

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<sup>17</sup> The Exchange noted, in its STO Program expansion proposal in 2011, that it was requested by a retail investor to reinstate a short term option class that the Exchange had to remove from trading because of the class option limitation within the Program. The investor told the Exchange that he had used the removed class as a powerful tool for hedging a market sector, and that various strategies that the investor put into play were disrupted and eliminated when the class was removed. See Securities Exchange Act Release No. 65776 (November 17, 2011), 76 FR 72482 (November 23, 2011)(SR-Phlx-2011-131)(order approving opening STO series on 30 option classes).

<sup>18</sup> Since the STO Program was initiated in 2010 on the Exchange and other markets (some of which were established after the STO Program was initiated), STO Program volume expanded by more than 3000%.

<sup>19</sup> During the same period of time, however, the volume of standard monthly options across all exchanges has, on the other hand, declined by 28%.

to grow in importance for all market participants, including institutional and retail investors.<sup>20</sup>

The proposed revisions to the STO Program will permit the Exchange to meet customer demand for better STO Program use and efficiency, harmonization of OLPP and STO Program rules, internal harmonization of the STO Program, and a reasonable expansion of strike price intervals in the Program.

By way of example, if an investor wants to gain exposure to a relatively higher priced security like Apple (AAPL), he may invest in AAPL stock and/or AAPL options. Currently, the investor must choose a strike price that might lack the precision he is looking for in order to gain or reduce exposure to AAPL. If the investor is looking to invest in a long position in AAPL, for example, he may choose to execute a covered call strategy by selling calls on AAPL. Assume AAPL is trading at \$415. Under the current rules the nearest out-of-the-money STO call would be the \$420.00 strike, which would, with one week until expiration, trade at or about \$2.15. If the \$417.50 strike were available per this proposal, however, the investor could sell calls at approximately \$3.15. This would allow the investor to still execute an out of the money covered call strategy, but would increase the potential return by \$1, or 46% ( $\$1/\$2.15$ ), thus offering 46% additional risk protection. To the investor writing covered calls on his AAPL equity position, this extra risk protection could be very significant on an annual basis, and costly if not available.

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<sup>20</sup> The current STO Program, which is similar across all options markets that have weeklies programs, is in its current formulation one of the more challenging industry-wide listings program to administer. Recognizing the importance of the Program, the Exchange is seeking to improve the Program by making it more uniform and logical.

By way of a second example, if an investor wants to gain exposure to a lower priced security like Banc of America (BAC), he may invest in BAC stock and/or options. Assume BAC is trading at \$14.60. The investor may have established a long position in a non-STO BAC option like, for example, the standard expiration BAC Aug 17th 1.00 calls. To offset some of the risk the investor possesses in the BAC Aug 17th 1.00 calls, the investor may wish to make a corresponding trade in the BAC Aug 10th (STO) 1.00 call. Currently, the investor does not have this risk reduction strategy available to him, as the current BAC STO does not have available strikes. The proposal would correct this shortcoming.

By way of further example, in a lower priced stock such as BAC there may be a need for tighter strike price intervals in case of a precipitous drop in price. Assume BAC is trading at \$14.60. Assume BAC announces a large loss, and the stock price drops to \$6. The Exchange believes that investors should have the ability to use calls or puts with a more targeted strike price to attain proper risk protection - one of the great advantages of options. Because current STO rules do not allow a strike price below \$9.50 in the BAC STO, however, an investor looking to purchase out of the money put protection for a short period of time, and at a lower premium than a longer term option, is not able to do so. BAC \$9.50 strike puts would trade at a premium of about \$3.50 or more, and would require the investor to sell or exercise his puts by expiration if they remained in the money. An Aug 10th \$5.00 out of the money STO option in BAC, on the other hand, would trade a much more affordable premium due to being out of the money, and would only require the investor to sell or exercise his put if the BAC stock price continued its precipitous drop. Clearly, having the ability to make more targeted and efficient

decisions regarding the protection of investments are of great importance to investors and market participants, and should be encouraged.

Following are illustrations of the STO listing process per the rules as proposed. Assume that the Alcoa Inc. (AA) STO closes at \$7.92. Pursuant to the proposed rule, STOs may be added between \$1 and \$15.50 (half point strike intervals are currently permitted where the strike price is below \$75). On day one, the maximum number of strikes that may be listed are 30. Additional series may be added as the underlying price moves. If the AA price moves to \$10, additional series can be added as high as \$20 (100% above the underlying price). If the AA price moves to \$5, additional lower strikes would not be added, since the initial strikes go as low as possible (\$1). Or, assume that the McDonald's Corporation (MCD) STO closes at \$96.26. Pursuant to the proposed rule, Short Term Options Series may be added between \$49 and \$144 (in \$0.50 & \$1 intervals). On day one, no more than 30 strikes may be listed. Additional series may be added as the underlying price moves. If the MCD price moves to \$105, additional series can be added as high as \$155 (50% above the underlying price). If the MCD price moves to \$87, additional lower strikes can be added as low as \$43.50. To list strikes above the 50% threshold, however, there must be demonstrated customer interest for such series, as expressed by institutional, corporate or individual customers or their brokers.

Following are illustrations of the STO delisting process per the rules as proposed. Series delisting would occur by proposed rule if the stock price moves and there are no series at least 10% above/below the current price. Assume AA closed at \$7.92 and strikes were listed between \$1 and \$15. Then the AA price moved to \$15, and there were no strikes at \$16.50 or above (at least 10% above the current price), the delisting process

would begin. For the delisting process, staff would simply need to check what, if any, strikes are higher than the highest strike with open interest, and lower than the lowest strike with open interest. Unlike the current delisting process, there would be no need to check whether strikes were within a listing band (e.g. 10% to 30%). Or, assume that MCD closed at \$96.26 and strikes were listed between \$82 and \$110. Then the MCD price moved to \$104, and there were no strikes at \$115 or above (at least 10% above the current price). For the delisting process, staff would simply need to check what strikes are higher than the highest strike with open interest, and lower than the lowest strike with open interest.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any potential additional traffic associated with this current amendment to the STO Program. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange represents that it will monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange's automated systems.<sup>21</sup>

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<sup>21</sup> As noted previously, because the STO Program is an industry-wide program, exchanges tend to emulate the rule filings of one another. The Exchange recognizes that while this may result in a potentially increased combined capacity footprint of exchanges with weeklies programs, the Exchange believes that the specific beneficial changes proposed in this filing greatly outweigh any such potential impact.



b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>22</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>23</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. Expanding the classes and additional series that can be opened in the STO Program, simplifying the delisting process, and allowing \$2.50 strike price intervals will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment and hedging decisions in greater number of securities.

The STO Program has been well-received by market participants, and in particular by retail investors, and has seen increasing trading volume. The Exchange believes that the current proposed revisions to the STO Program will permit the Exchange to meet customer demand for enhanced STO Program use and efficiency, harmonization of OLPP and STO Program rules, and a reasonable expansion of strike price intervals in the Program to the benefit of investors, market participants, and the marketplace.

With regard to the impact of this proposal on system capacity, the Exchange believes that it and OPRA have the necessary systems capacity to handle any potential additional traffic associated with this current amendment to the STO Program. The Exchange believes that its members will not have a capacity issue as a result of this

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<sup>22</sup> 15 U.S.C. 78f(b).

<sup>23</sup> 15 U.S.C. 78f(b)(5).

proposal. All exchanges that have STO programs have largely similar STO rules and tend to emulate STO rule changes proposals initiated by other exchanges. While the Exchange recognizes that this proposal may be copied by other exchanges and impact their capacity, the Exchange believes that any such potential capacity impact will not outweigh (and does not outweigh for the Exchange) the significant benefits that this proposal will afford market participants and the market in general in terms of significantly greater flexibility and increases in efficient trading and hedging options.

The proposed revisions to the STO Program will permit the Exchange to meet customer demand for better STO Program use and efficiency, harmonization of OLPP and STO Program rules, internal harmonization of the STO Program, and a reasonable expansion of strike price intervals in the Program.

4. 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 that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that the proposal is decidedly pro-competitive. The Exchange believes that the proposed rule change will result in additional investment options and opportunities to achieve the investment objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Notice of proposed rule for publication in the Federal Register.

5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2013-94)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding the Short Term Option Series Program

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 September 11, 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, II, and III, 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 is filing with the Commission a proposal to amend Rule 1012 (Series of Options Open for Trading) and Rule 1101A (Terms of Option Contracts) to expand the Short Term Option Program (“STO Program” or “Program”)<sup>3</sup> so that the

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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> STOs, also known as “weekly options” as well as “Short Term Options”, are series in an options class that are approved for listing and trading on the Exchange in which the series are opened for trading on any Thursday or Friday that is a business day and that expire on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively. See Rules 1000(b)(44), 1000A(b)(16), Commentary .11 to Rule 1012 and Rule 1101A(b)(vi) regarding the STO Program.

Exchange may: select fifty option classes on which STOs may be opened; list or add STOs within fifty percent (50%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is greater than \$20, or within one hundred percent (100%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is less than or equal to \$20; add an STO strike price interval of \$2.50 or greater where the strike price is above \$150; and in general harmonize the different parts of the Program.

The text of the proposed rule change is available on the Exchange's Website at <http://nasdaqomxphlx.cchwallstreet.com>, 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 this proposed rule change is to amend Rule 1012 and Rule 1101A to expand the STO Program for non-index and index options so that the Exchange may: select fifty option classes on which STOs may be opened; list or add STOs within fifty percent (50%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is greater than \$20, or within one

hundred percent (100%) above or below the closing price of the underlying security from the preceding day if the price of the underlying security is less than or equal to \$20; add an STO strike price interval of \$2.50 or greater where the strike price is above \$150; and in general harmonize the different parts of the Program.

The STO Program, which was initiated in 2010,<sup>4</sup> is codified in Commentary .11 to Rule 1012 for non-index options (e.g. equity, currency, and exchange traded fund (“ETF”) options) and Rule 1101A(b)(vi) for index options. These sections currently state that after an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day series of options on no more than thirty option classes that expire on the Friday of the following business week that is a business day.<sup>5</sup> In addition to the thirty option class limitation, there is also a limitation that no more than twenty series for each expiration date in those classes that may be opened for trading.<sup>6</sup> Furthermore, the strike price of each short term

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<sup>4</sup> See Securities Exchange Act Release No. 62296 (June 15, 2010), 75 FR 35115 (June 21, 2010)(SR-Phlx-2010-84)(notice of filing and immediate effectiveness permanently establishing STO Program on the Exchange).

<sup>5</sup> The increase in the number of option issues that could be opened pursuant to the STO Program was approved in 2011. See Securities Exchange Act Release No. 65776 (November 17, 2011), 76 FR 72482 (November 23, 2011)(SR-Phlx-2011-131)(approval order).

<sup>6</sup> However, if the Exchange opens less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current price of the underlying security. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current price of the underlying security provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their

option has to be fixed with approximately the same number of strike prices being opened above and below the value of the underlying security at about the time that the STOs are initially opened for trading on the Exchange, and with strike prices being within thirty percent (30%) above or below the closing price of the underlying security from the preceding day. The Exchange proposes only to increase the number of STO classes that may be opened, match the opening of additional STO strikes to what is permissible per the OLPP,<sup>7</sup> add new strike prices increments that may be used in the STO Program, and

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brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened. Commentary .11(d) to Rule 1012 and Rule 1101A(b)(vi)(D). The Exchange proposes to change twenty (20) Short Term Option Series to thirty (30) Short Term Option Series. This is done to achieve consistency with other proposed rule changes.

<sup>7</sup> The full name of the OLPP (which is applicable to all option exchanges) is Plan For The Purpose of Developing and Implementing Procedures Designed to Facilitate the Listing and Trading of Standardized Options Submitted Pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934. With regard to the listing of new series on equity, ETF, or trust issued receipt (“TIRs”) option classes, subsection 3.(g)(i) of the OLPP states, in relevant part, that the exercise price of each option series listed by an exchange that chooses to list a series of options (known as the Series Selecting Exchange) shall be fixed at a price per share which is reasonably close to the price of the underlying equity security, ETF, or TIR at or about the time the Series Selecting Exchange determines to list such series. Except as provided in subparagraphs (ii) through (iv) of the OLPP, if the price of the underlying security is less than or equal to \$20, the Series Selecting Exchange shall not list new option series with an exercise price more than 100% above or below the price of the underlying security. If the price of the underlying security is greater than \$20, the Series Selecting Exchange shall not list new option series with an exercise price more than 50% above or below the price of the underlying security.

Subsection 3.(g)(i) of the OLPP indicates that an option series price has to be reasonably close to the price of the underlying security and must not exceed a maximum of 50% or 100%, depending on the price, from the underlying. The Exchange’s proposal, while conforming to the current structure of the Exchange’s STO rules, is similar in practical effect to the noted OLPP subsection.

in general harmonize the different parts of the Program (e.g. initial listings and additional series).

In terms of the strike price intervals, the STO Program currently allows that the interval between strike prices on STOs may be (i) \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all classes that participate in the STO Program; or (ii) \$0.50 for classes that trade in one dollar increments in Related non-STOs<sup>8</sup> and that participate in the STO Program. Related non-STO series shall be opened during the week prior to the week that such Related non-STO series expire in the same manner as permitted in Commentary .11 to Rule 1012 and in the same strike price intervals that are permitted in Commentary .11 to Rule 1012.<sup>9</sup> This proposal retains the fundamental limitations of the STO Program while proposing specific changes as described below.

#### The Proposal

First, the Exchange proposes to increase the number of STO classes that may be opened after an option class has been approved for listing and trading on the Exchange. Specifically, the Exchange proposes in Commentary .11(a) of Rule 1012 and Rule 1101A(b)(vi)(A) that the Exchange may select up to fifty currently listed option classes on which Short Term Option Series may be opened.<sup>10</sup> The Exchange believes that this

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<sup>8</sup> Related non-STOs are non-STOs that have similar options with a longer expiration cycles (e.g. monthly RUT options would be Related non-STOs to weekly RUT options).

<sup>9</sup> Commentary .11(e) to Rule 1012 and Rule 1101A(b)(vi)(E).

<sup>10</sup> For proposed rule changes regarding weekly index options pursuant to Rule 1101A(b)(vi), throughout this filing the reference is to index option classes and series.



proposed moderate increase is needed and advisable in light of the demonstrated acceptance and popularity of the STO Program among market participants, as discussed below.

Second, the Exchange proposes to indicate under what circumstances, subsequent to opening initial STO classes, additional STO strike prices may be added. Specifically, the Exchange proposes in Commentary .11(c) of Rule 1012 and Rule 1101A(b)(vi)(C) that any initial series listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security. This proposal is in line with the process for adding new series of options found in subsection 3.(g)(i) of the OLPP, and harmonizes the Program internally. The Exchange believes that this proposal is a reasonable and desirable enhancement to the STO Program.

Third, the Exchange proposes changes to Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A to indicate that any additional strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent

(50%) above or below the price of the underlying security. This is done so that the parameters for opening STOs and adding strike prices are in conformity. The Exchange proposes additional changes to Commentary .11(d) and subsection (b)(vi)(D) to indicate that if the Exchange has opened less than thirty (30) Short Term Option Series for a Short Term Option Expiration Date, the Exchange may also open additional strike prices of Short Term Option Series that are not more than 50% above or below the current price of the underlying security (if the price is greater than \$20); provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers.<sup>11</sup> This is done to conform the additional strike price methodology with the proposed 50% listing standard in the same subsections,<sup>12</sup> while retaining the demonstrated interest language that may be useful in unforeseen circumstances.

Fourth, the Exchange also proposes to simplify the Delisting Language in Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A, which currently contains a range methodology (at least 10% but not more than 30% above or below the current price of the underlying),<sup>13</sup> to indicate that the Exchange will delist any

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<sup>11</sup> Market Makers trading for their own account are not considered when determining customer interest. Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A.

<sup>12</sup> The Exchange believes that the 100% standard proposed for initial listings where the price of the underlying is below \$20 is adequate and does not need to be repeated for additional series adds.

<sup>13</sup> Currently, the Delisting Language states: "In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a

series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week.

The Exchange believes that like its other proposals, the delisting proposal will add clarity and certainty to the STO process once it is implemented across all exchanges. All options exchanges that have their own weeklies programs have similar rules regarding their own programs, and tend to emulate STO changes that are initiated by other options exchanges; the Exchange believes that other exchanges will likely copy all or portions of this proposed filing.

Fifth, the Exchange proposes to add \$2.50 strike price intervals to the STO Program. Specifically, the Exchange proposes in Commentary .11(e) of Rule 1012 and Rule 1101A(b)(vi)(E) to indicate that the interval between strike prices on STOs may be \$2.50 or greater where the strike price is above \$150. This proposed change complements the current STO strike price intervals, which are \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and

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given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under Commentary .11, that are between 10% and 30% above or below the price of the underlying security". Commentary .11(d) of Rule 1012 and subsection (b)(vi)(D) of Rule 1101A. See Securities Exchange Act Release No. 70116 (August 5, 2013), 78 FR 48754 (August 9, 2013)(SR-Phlx-2013-79)(notice of filing and immediate effectiveness regarding delisting series and opening up to five consecutive weekly expirations of STOs).

\$150 for all classes that participate in the STO Program.<sup>14</sup> The proposed \$2.50 strike price interval addresses the issue that above a \$150 strike price STO strike price intervals must currently be an exceedingly wide \$5.00 or greater.<sup>15</sup>

Additionally, the Exchange proposes non-substantive housekeeping changes in subsection (b)(vi)(D) of Rule 1101A. This is simply to make clear that the subsection deals with STOs for indexes. The Exchange also proposes to remove reference to between 10% and 30% above or below the price of the underlying security. This is no longer used as a standard.

The principal reason for the proposed expansion is market demand for additional STO classes and series and a desire to make the STO Program more effective. There is continuing strong customer demand for having the ability to execute hedging and trading strategies via STOs, particularly in the current fast and volatile multi-faceted trading and investing environment that extends across numerous markets and platforms<sup>16</sup> and includes market moving events such as significant market volatility, corporate events, or large market, sector, or individual issue price swings. The Exchange has been requested by traders and other market participants to expand the STO Program to allow additional STO offerings and increased efficiency.

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<sup>14</sup> STO strike price intervals may also be in \$1 increments in Related non-Short Term Options that participate in the STO Program. This requirement, like all other STO requirements, is similar for index options and non-index options. Commentary .11 of Rule 1012 and Rule 1101A(b)(vi).

<sup>15</sup> See, e.g., Commentary .05 to Rule 1012 and Rule 1101A.

<sup>16</sup> These include, without limitation, options, equities, futures, derivatives, indexes, exchange traded funds, exchange traded notes, currencies, and over the counter instruments.

In order that the Exchange not exceed the current thirty option class and twenty option series restriction, the Exchange has on occasion had to turn away STO customers (traders and investors) because it could not list, or had to delist, STOs or could not open adequate STO Series because of restrictions in the STO Program. This has negatively impacted investors and traders, particularly retail public customers, who have continued to request the Exchange not to remove short term option classes or add short term option classes, or have requested the Exchange to expand the STO Program so that additional STO classes and series could be opened that would allow the market participants to execute trading and hedging strategies.<sup>17</sup> There are, as discussed, substantial benefits to market participants having the ability to trade eligible option classes within the STO Program. Furthermore, the Exchange supports the objective of responding to customer need to enhance successful programs to make them more efficient for hedging and trading purposes.

The Exchange notes that the STO Program has been well-received by market participants, in particular by retail investors. The volume of STO trading has increased by 132% since the beginning of 2011<sup>18</sup> and continues to grow, such that currently STOs

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<sup>17</sup> The Exchange noted, in its STO Program expansion proposal in 2011, that it was requested by a retail investor to reinstate a short term option class that the Exchange had to remove from trading because of the class option limitation within the Program. The investor told the Exchange that he had used the removed class as a powerful tool for hedging a market sector, and that various strategies that the investor put into play were disrupted and eliminated when the class was removed. See Securities Exchange Act Release No. 65776 (November 17, 2011), 76 FR 72482 (November 23, 2011)(SR-Phlx-2011-131)(order approving opening STO series on 30 option classes).

<sup>18</sup> Since the STO Program was initiated in 2010 on the Exchange and other markets (some of which were established after the STO Program was initiated), STO Program volume expanded by more than 3000%.

represent 20% of trading volume on the Exchange and 31% of trading volume across all option exchanges.<sup>19</sup> The Exchange believes that weekly expiration options will continue to grow in importance for all market participants, including institutional and retail investors.<sup>20</sup>

The proposed revisions to the STO Program will permit the Exchange to meet customer demand for better STO Program use and efficiency, harmonization of OLPP and STO Program rules, internal harmonization of the STO Program, and a reasonable expansion of strike price intervals in the Program.

By way of example, if an investor wants to gain exposure to a relatively higher priced security like Apple (AAPL), he may invest in AAPL stock and/or AAPL options. Currently, the investor must choose a strike price that might lack the precision he is looking for in order to gain or reduce exposure to AAPL. If the investor is looking to invest in a long position in AAPL, for example, he may choose to execute a covered call strategy by selling calls on AAPL. Assume AAPL is trading at \$415. Under the current rules the nearest out-of-the-money STO call would be the \$420.00 strike, which would, with one week until expiration, trade at or about \$2.15. If the \$417.50 strike were available per this proposal, however, the investor could sell calls at approximately \$3.15. This would allow the investor to still execute an out of the money covered call strategy, but would increase the potential return by \$1, or 46% ( $\$1/\$2.15$ ), thus offering 46%

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<sup>19</sup> During the same period of time, however, the volume of standard monthly options across all exchanges has, on the other hand, declined by 28%.

<sup>20</sup> The current STO Program, which is similar across all options markets that have weeklies programs, is in its current formulation one of the more challenging industry-wide listings program to administer. Recognizing the importance of the Program, the Exchange is seeking to improve the Program by making it more uniform and logical.

additional risk protection. To the investor writing covered calls on his AAPL equity position, this extra risk protection could be very significant on an annual basis, and costly if not available.

By way of a second example, if an investor wants to gain exposure to a lower priced security like Banc of America (BAC), he may invest in BAC stock and/or options. Assume BAC is trading at \$14.60. The investor may have established a long position in a non-STO BAC option like, for example, the standard expiration BAC Aug 17th 1.00 calls. To offset some of the risk the investor possesses in the BAC Aug 17th 1.00 calls, the investor may wish to make a corresponding trade in the BAC Aug 10th (STO) 1.00 call. Currently, the investor does not have this risk reduction strategy available to him, as the current BAC STO does not have available strikes. The proposal would correct this shortcoming.

By way of further example, in a lower priced stock such as BAC there may be a need for tighter strike price intervals in case of a precipitous drop in price. Assume BAC is trading at \$14.60. Assume BAC announces a large loss, and the stock price drops to \$6. The Exchange believes that investors should have the ability to use calls or puts with a more targeted strike price to attain proper risk protection - one of the great advantages of options. Because current STO rules do not allow a strike price below \$9.50 in the BAC STO, however, an investor looking to purchase out of the money put protection for a short period of time, and at a lower premium than a longer term option, is not able to do so. BAC \$9.50 strike puts would trade at a premium of about \$3.50 or more, and would require the investor to sell or exercise his puts by expiration if they remained in the money. An Aug 10th \$5.00 out of the money STO option in BAC, on the other hand,

would trade a much more affordable premium due to being out of the money, and would only require the investor to sell or exercise his put if the BAC stock price continued its precipitous drop. Clearly, having the ability to make more targeted and efficient decisions regarding the protection of investments are of great importance to investors and market participants, and should be encouraged.

Following are illustrations of the STO listing process per the rules as proposed. Assume that the Alcoa Inc. (AA) STO closes at \$7.92. Pursuant to the proposed rule, STOs may be added between \$1 and \$15.50 (half point strike intervals are currently permitted where the strike price is below \$75). On day one, the maximum number of strikes that may be listed are 30. Additional series may be added as the underlying price moves. If the AA price moves to \$10, additional series can be added as high as \$20 (100% above the underlying price). If the AA price moves to \$5, additional lower strikes would not be added, since the initial strikes go as low as possible (\$1). Or, assume that the McDonald's Corporation (MCD) STO closes at \$96.26. Pursuant to the proposed rule, Short Term Options Series may be added between \$49 and \$144 (in \$0.50 & \$1 intervals). On day one, no more than 30 strikes may be listed. Additional series may be added as the underlying price moves. If the MCD price moves to \$105, additional series can be added as high as \$155 (50% above the underlying price). If the MCD price moves to \$87, additional lower strikes can be added as low as \$43.50. To list strikes above the 50% threshold, however, there must be demonstrated customer interest for such series, as expressed by institutional, corporate or individual customers or their brokers.

Following are illustrations of the STO delisting process per the rules as proposed. Series delisting would occur by proposed rule if the stock price moves and there are no



series at least 10% above/below the current price. Assume AA closed at \$7.92 and strikes were listed between \$1 and \$15. Then the AA price moved to \$15, and there were no strikes at \$16.50 or above (at least 10% above the current price), the delisting process would begin. For the delisting process, staff would simply need to check what, if any, strikes are higher than the highest strike with open interest, and lower than the lowest strike with open interest. Unlike the current delisting process, there would be no need to check whether strikes were within a listing band (e.g. 10% to 30%). Or, assume that MCD closed at \$96.26 and strikes were listed between \$82 and \$110. Then the MCD price moved to \$104, and there were no strikes at \$115 or above (at least 10% above the current price). For the delisting process, staff would simply need to check what strikes are higher than the highest strike with open interest, and lower than the lowest strike with open interest.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any potential additional traffic associated with this current amendment to the STO Program. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange represents that it will monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange's automated systems.<sup>21</sup>

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<sup>21</sup> As noted previously, because the STO Program is an industry-wide program, exchanges tend to emulate the rule filings of one another. The Exchange recognizes that while this may result in a potentially increased combined capacity footprint of exchanges with weeklies programs, the Exchange believes that the

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>22</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>23</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. Expanding the classes and additional series that can be opened in the STO Program, simplifying the delisting process, and allowing \$2.50 strike price intervals will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment and hedging decisions in greater number of securities.

The STO Program has been well-received by market participants, and in particular by retail investors, and has seen increasing trading volume. The Exchange believes that the current proposed revisions to the STO Program will permit the Exchange to meet customer demand for enhanced STO Program use and efficiency, harmonization of OLPP and STO Program rules, and a reasonable expansion of strike price intervals in the Program to the benefit of investors, market participants, and the marketplace.

With regard to the impact of this proposal on system capacity, the Exchange believes that it and OPRA have the necessary systems capacity to handle any potential additional traffic associated with this current amendment to the STO Program. The

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specific beneficial changes proposed in this filing greatly outweigh any such potential impact.

<sup>22</sup> 15 U.S.C. 78f(b).

<sup>23</sup> 15 U.S.C. 78f(b)(5).

Exchange believes that its members will not have a capacity issue as a result of this proposal. All exchanges that have STO programs have largely similar STO rules and tend to emulate STO rule changes proposals initiated by other exchanges. While the Exchange recognizes that this proposal may be copied by other exchanges and impact their capacity, the Exchange believes that any such potential capacity impact will not outweigh (and does not outweigh for the Exchange) the significant benefits that this proposal will afford market participants and the market in general in terms of significantly greater flexibility and increases in efficient trading and hedging options.

The proposed revisions to the STO Program will permit the Exchange to meet customer demand for better STO Program use and efficiency, harmonization of OLPP and STO Program rules, internal harmonization of the STO Program, and a reasonable expansion of strike price intervals in the Program.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that the proposal is decidedly pro-competitive. The Exchange believes that the proposed rule change will result in additional investment options and opportunities to achieve the investment objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general.

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 Exchange consents, the Commission shall: (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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-94 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-2013-94. 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 website viewing and printing in the Commission's Public Reference Room 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 offices 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-2013-94 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>24</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>24</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Proposed new text is underlined. Deleted text is [bracketed].

**NASDAQ OMX PHLX LLC Rules**  
**Options Rules**

\* \* \* \* \*

**Rule 1012. Series of Options Open for Trading**

(a) – (d) No Change.

••• *Commentary:* -----

**.01 – .10** No Change.

**.11** Short Term Option Series Program. After an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire at the close of business on each of the next five consecutive Fridays that are business days ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(a) The Exchange may select up to [thirty]fifty ([30]50) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the [thirty]fifty -option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to [twenty]thirty ([20]30) Short Term Option Series for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(b) No Change.

(c) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the value of the underlying security at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security). Any strike

prices listed by the Exchange shall be [within thirty percent (30%) above or below the closing price of the underlying security from the preceding day]reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

(d) If the Exchange opens less than [twenty]thirty ([20]30) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be [within thirty percent (30%) above or below the current price of the underlying security.]reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

The Exchange may also open additional strike prices of Short Term Option Series that are more than [30]50% above or below the current price of the underlying security (if the price is greater than \$20); provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision.

In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week[, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under Commentary .11, that are between 10% and 30% above or below the price of the underlying security]. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(e) The interval between strike prices on Short Term Option Series may be (i) \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all classes that participate in the Short Term Options Series Program; [or ](ii) \$0.50 for classes that trade in one dollar increments in Related non-Short Term Options and that participate in the Short Term Option Series Program; or (iii) \$2.50 or greater where the strike price is above \$150. Related non-Short Term Option series shall be opened during the week prior to the week that such Related non-Short Term Option series expire in the same manner as permitted in Commentary .11 to this Rule 1012 and in the same strike price intervals that are permitted in Commentary .11 to this Rule 1012.

**.12 - 13** No Change.

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### **Rule 1101A. Terms of Option Contracts**

(a) No Change.

(b) No Change.

(i) – (v) No Change.

#### **(vi) Short Term Option Series Program**

After an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire at the close of business on each of the next five consecutive Fridays that are business days ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(A) The Exchange may select up to [thirty]fifty ([30]50) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the [thirty]fifty -option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each index option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to [twenty]thirty ([20]30) Short Term Option Series on index options for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by



other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(B) No Change.

(C) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the calculated value of the underlying index at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security or calculated index value). Any strike prices listed by the Exchange shall be [within thirty percent (30%) above or below the current value of the underlying index]reasonably close to the price of the underlying index and within the following parameters: (i) if the price of the underlying index is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying index; and (ii) if the price of the underlying index is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying index.

(D) If the Exchange has opened less than [twenty]thirty ([20]30) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the current value of the underlying index moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be [within thirty percent (30%) above or below the current value of the underlying index.]reasonably close to the price of the underlying index and within the following parameters: (i) if the price of the underlying index is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying index; and (ii) if the price of the underlying index is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying index.

The Exchange may also open additional strike prices of Short Term Option Series that are more than [30]50% above or below the current value of the underlying index (if the price is greater than \$20); provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. ]In the event that the underlying [security]index has moved such that there are no series that are

at least 10% above or below the current price of the underlying [security]index, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week[, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under Rule 1101A(b)(vi), that are between 10% and 30% above or below the price of the underlying security]. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(E) The interval between strike prices on Short Term Option Series may be (1) \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all index classes that participate in the Short Term Option Series Program; [or ](2) \$0.50 for index classes that trade in one dollar increments in Related non-Short Term Options and that participate in the Short Term Option Series Program; or (iii) \$2.50 or greater where the strike price is above \$150. Related non-Short Term Option series shall be opened during the week prior to the week that such Related non-Short Term Option series expire in the same manner as permitted in Rule 1101A(b)(vi) and in the same strike price intervals that are permitted in this Rule 1101A(b)(vi).

(c) No Change.

••• *Commentary:* -----

**.01 - .04** No Change.

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