

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 26	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 41	Amendment No. (req. for Amendments *)
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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 type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" 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 checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

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 \*).

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 \* Jurij Last Name \* Trypupenko

Title \* Associate General Counsel

E-mail \* jurij.trypupenko@nasdaqomx.com

Telephone \* (301) 978-8132 Fax

**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 06/27/2014 Executive Vice President and General Counsel

By Edward S. Knight

(Name \*)

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.

Persona Not Validated - 1383935917270,

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

Add Remove View

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 \***

Add Remove View

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**

Add Remove View

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) regarding the Short Term Option (“STO”) Program (“STO Program” or “Program”) to introduce finer strike price intervals for standard expiration contracts in option classes that also have STOs<sup>3</sup> listed on them (“related non-STOs” or “related non-Short Term Options”).

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.

(c) 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. For STO Program rules regarding non-index options, see Rule 1000(b)(44) and Commentary .11 to Rule 1012. For STO Program rules regarding index options, see Rule 1000A(b)(16) and Rule 1101A(b)(vi).

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, The NASDAQ OMX Group, Inc., 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 regarding the STO Program to introduce finer strike price intervals for standard expiration contracts in option classes that also have related non-STOs listed on them. In particular, the Exchange proposes to amend its rules to permit the listing of related non-short term options during the month prior to expiration in the same strike price intervals as allowed for short term option series.

The STO Program, which was initiated in 2010,<sup>4</sup> is codified in Commentary .11 to Rule 1012 for non-index options including equity, currency, and exchange traded fund (“ETF”) options, and in Rule 1101A(b)(vi) for index options. Under these rules, the

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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).

Exchange may list STOs in up to fifty option classes,<sup>5</sup> including up to thirty index option classes,<sup>6</sup> in addition to option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each of these option classes, the Exchange may list five STO expiration dates at any given time, not counting monthly or quarterly expirations.<sup>7</sup> Specifically, on any Thursday or Friday that is a business day, the Exchange may list STOs in designated option classes that expire at the close of business on each of the next five consecutive Fridays that are business days.<sup>8</sup> These STOs, which can be several weeks or more from expiration, may be listed in strike price intervals of \$0.50, \$1, or \$2.50, with the finer strike price intervals being offered for lower priced securities, and for options that trade in the Exchange's dollar strike program.<sup>9</sup> More specifically, the Exchange may list short term options in \$0.50 intervals for strike prices less than \$75, or for option classes that trade in one dollar increments in the related non-short term option, \$1 intervals for strike prices that are between \$75 and \$150, and \$2.50 intervals for strike prices above \$150.<sup>10</sup>

The Exchange may also list standard expiration contracts, which are listed in accordance with the regular monthly expiration cycle. These standard expiration

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<sup>5</sup> See Commentary .11(a) to Rule 1012.

<sup>6</sup> See Rule 1101A(b)(vi)(A).

<sup>7</sup> See Commentary .11 to Rule 1012; Rule 1101A(b)(vi).

<sup>8</sup> Id.

<sup>9</sup> See Commentary .11 to Rule 1012; Rule 1101A(b)(vi).

<sup>10</sup> Id. See Commentary .11(e) to Rule 1012; Rule 1101A(b)(vi)(E). The \$2.50 interval does not apply to indexes. See Rule 1101A(b)(vi).

contracts must be listed in wider strike price intervals of \$2.50, \$5, or \$10,<sup>11</sup> though the Exchange also operates strike price programs, such as the dollar strike program mentioned above,<sup>12</sup> that allow the Exchange to list a limited number of option classes in finer strike price intervals. In general, the Exchange must list standard expiration contracts in \$2.50 intervals for strike prices of \$25 or less, \$5 intervals for strike prices greater than \$25, and \$10 intervals for strike prices greater than \$200.<sup>13</sup> During the week prior to expiration only, the Exchange is permitted to list related non-short term option contracts in the narrower strike price intervals available for short term option series.<sup>14</sup> Since this exception to the standard strike price intervals is available only during the week prior to expiration, however, standard expiration contracts regularly trade at significantly wider intervals than their weekly counterparts, as illustrated below.

For example, assume ABC is trading at \$56.54 and the monthly expiration contract is three weeks to expiration. Assume also that the Exchange has listed all available STO expirations and thus has STOs listed on ABC for weeks one, two, four, five, and six. Each of the five weekly ABC expiration dates can be listed with strike prices in \$0.50 intervals, including, for example, the \$56.50 at-the-money strike. Because the monthly expiration contract has three weeks to expiration, however, the

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<sup>11</sup> See Commentary .05(a)(iii) to Rule 1012.

<sup>12</sup> See Commentary .05(A)(1) to Rule 1012, which allows the Exchange to designate up to 150 option classes on individual stocks to be traded in \$1 strike price intervals where the strike price is between \$50 and \$1. See also Commentary .05(b) to Rule 1012 (\$2.50 Strike Program) and Commentary .05(a)(ii) to Rule 1012 (\$0.50 Strike Program).

<sup>13</sup> See Commentary .05(a)(iii) to Rule 1012.

<sup>14</sup> See Commentary .11(e) to Rule 1012; Rule 1101A(b)(vi)(E).

near-the-money strikes must be listed in \$5 intervals unless those options are eligible for one of the Exchange's other strike price programs. In this instance, that would mean that investors would be limited to choosing, for example, between the \$55 and \$60 strike prices instead of the \$56.50 at-the-money strike available for STOs. This is the case even though contracts on the same option class that expire both several weeks before and several weeks after the monthly expiration are eligible for finer strike price intervals. Under the proposed rule change, the Exchange would be permitted to list the related non-short term option on ABC, which is less than a month to expiration, in the same strike price intervals as allowed for STOs. Thus, the Exchange would be able to list, and investors would be able to trade, all expirations described above with the same uniform \$0.50 strike price interval.

As proposed, the Exchange would be permitted to begin listing the monthly expiration contract in these narrower intervals at any time during the month prior to expiration, which begins on the first trading day after the prior month's expiration date, subject to the provisions of Exchange rules. For example, since the April 2014 monthly option expired on Saturday, April 19, the proposed rule change would allow the Exchange to list the May 2014 monthly option in short term option intervals starting Monday, April 21.

The Exchange believes that introducing consistent strike price intervals for STOs and related non-STOs during the month prior to expiration will benefit investors by giving them more flexibility to closely tailor their investment decisions. The Exchange also believes that the proposed rule change will provide the investing public and other

market participants with additional opportunities to hedge their investments, thus allowing these investors to better manage their risk exposure.

b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>15</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>16</sup> because it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

As noted above, standard expiration options currently trade in wider intervals than their weekly counterparts, except during the week prior to expiration. This creates a situation where contracts on the same option class that expire both several weeks before and several weeks after the standard expiration are eligible to trade in strike price intervals that the standard expiration contract is not. When the Exchange originally filed to list related non-STOs in the same intervals as STOs in the same option class during the week prior to expiration,<sup>17</sup> the Exchange was limited to listing one short term option expiration date at a time. Thus, there was no inconsistency between standard expiration contracts, which traded in finer intervals in the week prior to expiration, and STOs, which

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

<sup>16</sup> 15 U.S.C. 78f(b)(5).

<sup>17</sup> See Securities Exchange Act Release No. 67753 (August 29, 2012), 77 FR 54635 (September 5, 2012) (SR-Phlx-2012-78) (approval order); and 67446 (July 16, 2012), 77 FR 42780 (June 20, 2012) (SR-Phlx-2012-78) (notice of filing).



were only listed on the week prior to expiration. The STO Program has since grown in response to customer demand, and the Exchange is now permitted to list up to five STO expiration dates in addition to standard expiration options.<sup>18</sup> There is continuing strong customer demand to have the ability to execute hedging and trading strategies in the finer strike price intervals available in STOs, and the Exchange believes that the proposed rule change will increase market efficiency by harmonizing strike price intervals for contracts that are close to expiration, whether those contracts happen to be listed pursuant to weekly or monthly expiration cycles.

The Exchange notes that, in addition to listing standard expiration contracts in STO intervals during the expiration week, it already operates several programs that allow for strike price intervals for standard expiration contracts that range from \$0.50 to \$2.50.<sup>19</sup> The Exchange believes that each of these programs has been successful but notes that limitations on the number of option classes that may be selected for each of these programs means that many standard expiration contracts must still be listed in wider intervals than their short term option counterparts. For example, the \$0.50 strike price program, which offers the narrowest strike price interval, only permits the Exchange to designate up to 20 option classes to trade in \$0.50 intervals in addition to option classes selected by other exchanges that employ a similar program.<sup>20</sup> Thus, the proposed rules are necessary to fill the gap between strike price intervals allowed for

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<sup>18</sup> 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).

<sup>19</sup> See supra note 9.

<sup>20</sup> See Commentary .05(a) to Rule 1012.

STOs and related non-STOs. The Exchange believes that the proposed rule change, like the other strike price programs currently offered by the Exchange, will benefit investors by giving them more flexibility to closely tailor their investment and hedging decisions. Moreover, the proposed rule change is consistent with changes proposed by other exchanges.<sup>21</sup>

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 proposed rule change. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity.

#### 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 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. Specifically, the Exchange believes that investors will benefit from the availability of strike price intervals in standard expiration contracts that match the intervals currently permitted for STOs with a similar time to expiration.

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<sup>21</sup> See Securities Exchange Act Release No. 72098 (May 6, 2014), 79 FR 27006 (May 12, 2014) (SR-ISE-2014-23) (notice of filing).

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)

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)<sup>22</sup> of the Act and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>23</sup>

The proposed rule change is non-controversial in that it is consistent with changes proposed by other exchanges and will serve to harmonize strike price intervals for contracts that are close to expiration, whether those contracts happen to be listed pursuant to weekly or monthly expiration cycles.

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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.

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f)(6).

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the operative delay so that the Exchange may implement the proposed rule change as soon as possible commensurate with the interval proposal. The waiver would allow STOs to be traded on the Exchange similarly to other markets, in a competitive manner and without interruption, which would be consistent with the protection of investors and in the public interest.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

The proposed rule change is based on International Stock Exchange (“ISE”) Rules 504 and 2009.<sup>24</sup>

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.

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<sup>24</sup> See Securities Exchange Act Release No. 72098 (May 6, 2014), 79 FR 27006 (May 12, 2014) (SR-ISE-2014-23) (notice of filing).

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-2014-41)

June \_\_, 2014

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of a 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 June 27, 2014, 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) regarding the Short Term Option (“STO”) Program (“STO Program” or “Program”) to introduce finer strike price intervals for standard expiration contracts in option classes that also have STOs<sup>3</sup> listed on them (“related non-STOs” or “related non-Short Term Options”).

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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

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 regarding the STO Program to introduce finer strike price intervals for standard expiration contracts in option classes that also have related non-STOs listed on them. In particular, the Exchange proposes to amend its rules to permit the listing of related non-short term options during the month prior to expiration in the same strike price intervals as allowed for short term option series.

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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. For STO Program rules regarding non-index options, see Rule 1000(b)(44) and Commentary .11 to Rule 1012. For STO Program rules regarding index options, see Rule 1000A(b)(16) and Rule 1101A(b)(vi).

The STO Program, which was initiated in 2010,<sup>4</sup> is codified in Commentary .11 to Rule 1012 for non-index options including equity, currency, and exchange traded fund (“ETF”) options, and in Rule 1101A(b)(vi) for index options. Under these rules, the Exchange may list STOs in up to fifty option classes,<sup>5</sup> including up to thirty index option classes,<sup>6</sup> in addition to option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each of these option classes, the Exchange may list five STO expiration dates at any given time, not counting monthly or quarterly expirations.<sup>7</sup> Specifically, on any Thursday or Friday that is a business day, the Exchange may list STOs in designated option classes that expire at the close of business on each of the next five consecutive Fridays that are business days.<sup>8</sup> These STOs, which can be several weeks or more from expiration, may be listed in strike price intervals of \$0.50, \$1, or \$2.50, with the finer strike price intervals being offered for lower priced securities, and for options that trade in the Exchange’s dollar strike program.<sup>9</sup> More specifically, the Exchange may list short term options in \$0.50 intervals for strike prices less than \$75, or for option classes that trade in one dollar increments in

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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> See Commentary .11(a) to Rule 1012.

<sup>6</sup> See Rule 1101A(b)(vi)(A).

<sup>7</sup> See Commentary .11 to Rule 1012; Rule 1101A(b)(vi).

<sup>8</sup> Id.

<sup>9</sup> See Commentary .11 to Rule 1012; Rule 1101A(b)(vi).



the related non-short term option, \$1 intervals for strike prices that are between \$75 and \$150, and \$2.50 intervals for strike prices above \$150.<sup>10</sup>

The Exchange may also list standard expiration contracts, which are listed in accordance with the regular monthly expiration cycle. These standard expiration contracts must be listed in wider strike price intervals of \$2.50, \$5, or \$10,<sup>11</sup> though the Exchange also operates strike price programs, such as the dollar strike program mentioned above,<sup>12</sup> that allow the Exchange to list a limited number of option classes in finer strike price intervals. In general, the Exchange must list standard expiration contracts in \$2.50 intervals for strike prices of \$25 or less, \$5 intervals for strike prices greater than \$25, and \$10 intervals for strike prices greater than \$200.<sup>13</sup> During the week prior to expiration only, the Exchange is permitted to list related non-short term option contracts in the narrower strike price intervals available for short term option series.<sup>14</sup> Since this exception to the standard strike price intervals is available only during the week prior to expiration, however, standard expiration contracts regularly trade at significantly wider intervals than their weekly counterparts, as illustrated below.

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<sup>10</sup> Id. See Commentary .11(e) to Rule 1012; Rule 1101A(b)(vi)(E). The \$2.50 interval does not apply to indexes. See Rule 1101A(b)(vi).

<sup>11</sup> See Commentary .05(a)(iii) to Rule 1012.

<sup>12</sup> See Commentary .05(A)(1) to Rule 1012, which allows the Exchange to designate up to 150 option classes on individual stocks to be traded in \$1 strike price intervals where the strike price is between \$50 and \$1. See also Commentary .05(b) to Rule 1012 (\$2.50 Strike Program) and Commentary .05(a)(ii) to Rule 1012 (\$0.50 Strike Program).

<sup>13</sup> See Commentary .05(a)(iii) to Rule 1012.

<sup>14</sup> See Commentary .11(e) to Rule 1012; Rule 1101A(b)(vi)(E).

For example, assume ABC is trading at \$56.54 and the monthly expiration contract is three weeks to expiration. Assume also that the Exchange has listed all available STO expirations and thus has STOs listed on ABC for weeks one, two, four, five, and six. Each of the five weekly ABC expiration dates can be listed with strike prices in \$0.50 intervals, including, for example, the \$56.50 at-the-money strike. Because the monthly expiration contract has three weeks to expiration, however, the near-the-money strikes must be listed in \$5 intervals unless those options are eligible for one of the Exchange's other strike price programs. In this instance, that would mean that investors would be limited to choosing, for example, between the \$55 and \$60 strike prices instead of the \$56.50 at-the-money strike available for STOs. This is the case even though contracts on the same option class that expire both several weeks before and several weeks after the monthly expiration are eligible for finer strike price intervals. Under the proposed rule change, the Exchange would be permitted to list the related non-short term option on ABC, which is less than a month to expiration, in the same strike price intervals as allowed for STOs. Thus, the Exchange would be able to list, and investors would be able to trade, all expirations described above with the same uniform \$0.50 strike price interval.

As proposed, the Exchange would be permitted to begin listing the monthly expiration contract in these narrower intervals at any time during the month prior to expiration, which begins on the first trading day after the prior month's expiration date, subject to the provisions of Exchange rules. For example, since the April 2014 monthly option expired on Saturday, April 19, the proposed rule change would allow the

Exchange to list the May 2014 monthly option in short term option intervals starting Monday, April 21.

The Exchange believes that introducing consistent strike price intervals for STOs and related non-STOs during the month prior to expiration will benefit investors by giving them more flexibility to closely tailor their investment decisions. The Exchange also believes that the proposed rule change will provide the investing public and other market participants with additional opportunities to hedge their investments, thus allowing these investors to better manage their risk exposure.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>15</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>16</sup> because it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

As noted above, standard expiration options currently trade in wider intervals than their weekly counterparts, except during the week prior to expiration. This creates a situation where contracts on the same option class that expire both several weeks before and several weeks after the standard expiration are eligible to trade in strike price intervals that the standard expiration contract is not. When the Exchange originally filed

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

<sup>16</sup> 15 U.S.C. 78f(b)(5).

to list related non-STOs in the same intervals as STOs in the same option class during the week prior to expiration,<sup>17</sup> the Exchange was limited to listing one short term option expiration date at a time. Thus, there was no inconsistency between standard expiration contracts, which traded in finer intervals in the week prior to expiration, and STOs, which were only listed on the week prior to expiration. The STO Program has since grown in response to customer demand, and the Exchange is now permitted to list up to five STO expiration dates in addition to standard expiration options.<sup>18</sup> There is continuing strong customer demand to have the ability to execute hedging and trading strategies in the finer strike price intervals available in STOs, and the Exchange believes that the proposed rule change will increase market efficiency by harmonizing strike price intervals for contracts that are close to expiration, whether those contracts happen to be listed pursuant to weekly or monthly expiration cycles.

The Exchange notes that, in addition to listing standard expiration contracts in STO intervals during the expiration week, it already operates several programs that allow for strike price intervals for standard expiration contracts that range from \$0.50 to \$2.50.<sup>19</sup> The Exchange believes that each of these programs has been successful but notes that limitations on the number of option classes that may be selected for each of these programs means that many standard expiration contracts must still be listed in

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<sup>17</sup> See Securities Exchange Act Release No. 67753 (August 29, 2012), 77 FR 54635 (September 5, 2012) (SR-Phlx-2012-78) (approval order); and 67446 (July 16, 2012), 77 FR 42780 (June 20, 2012) (SR-Phlx-2012-78) (notice of filing).

<sup>18</sup> 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).

<sup>19</sup> See supra note 9.

wider intervals than their short term option counterparts. For example, the \$0.50 strike price program, which offers the narrowest strike price interval, only permits the Exchange to designate up to 20 option classes to trade in \$0.50 intervals in addition to option classes selected by other exchanges that employ a similar program.<sup>20</sup> Thus, the proposed rules are necessary to fill the gap between strike price intervals allowed for STOs and related non-STOs. The Exchange believes that the proposed rule change, like the other strike price programs currently offered by the Exchange, will benefit investors by giving them more flexibility to closely tailor their investment and hedging decisions. Moreover, the proposed rule change is consistent with changes proposed by other exchanges.<sup>21</sup>

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 proposed rule change. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity.

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 proposed rule change will result in additional investment options and opportunities to achieve the investment

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<sup>20</sup> See Commentary .05(a) to Rule 1012.

<sup>21</sup> See Securities Exchange Act Release No. 72098 (May 6, 2014), 79 FR 27006 (May 12, 2014) (SR-ISE-2014-23) (notice of filing).

objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general. Specifically, the Exchange believes that investors will benefit from the availability of strike price intervals in standard expiration contracts that match the intervals currently permitted for STOs with a similar time to expiration.

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)<sup>22</sup> of the Act and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>23</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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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.

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f)(6).

#### 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-2014-41 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-Phlx-2014-41. 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 Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of Phlx. 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-2014-41 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**

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**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) - (d) No Change.

(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; (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]month prior to [the week that]expiration of 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) - (D) No Change.

(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. Related non-Short Term Option series shall be opened during the [week]month prior to [the week that]expiration of 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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