

*C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

No written comments were solicited or received with respect to the proposed rule change.

**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 if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>16</sup> and Rule 19b-4(f)(6) thereunder.<sup>17</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEMKT-2014-62 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange

Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEMKT-2014-62. This file number should be included on the subject line if email 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 Web site 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 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-NYSEMKT-2014-62 and should be submitted on or before August 26, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-72700; File No. SR-BX-2014-038]

**Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Short Term Options Series**

July 29, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder,

notice is hereby given that, on July 25, 2014, NASDAQ OMX BX, Inc. ("BX" or "Exchange") filed with the Securities and Exchange Commission ("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 proposes to amend certain Exchange rules pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>3</sup> and Rule 19b-4 thereunder,<sup>4</sup> to: (i) Expand the Short Term Option Program ("STO Program" or "Program")<sup>5</sup> so that the Exchange may change the current thirty option class limitation to fifty option classes on which STOs may be opened; (ii) 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; (iii) open up to thirty STO series for each expiration date in an STO class; (iv) add additional STO strike price intervals to give the Exchange the ability to initiate strike prices in more granular intervals; (v) provide for the ability to open up to five consecutive expirations under the STO Program; (vi) introduce finer strike price intervals for standard expiration contracts in option classes that also have STOs listed on them ("related non-STOs" or "related non-Short Term Options"); (vii) add delisting provisions; and (viii) in general harmonize the different parts of the Program.

The text of the proposed rule change is available on the Exchange's Web site at <http://nasdaqomxbx.cchwallstreet.com>, at the

<sup>3</sup> 15 U.S.C. 78s(b)(1).

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

<sup>5</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. Chapter IV at Section 6, Supplementary Material .07 governs rules for STO Program rules regarding non-index options. Chapter XIV, Section 11 governs rules for STO Program rules regarding index options, which are not implicated by this proposal.

<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>17</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Commission deems this requirement to have been met.

<sup>18</sup> 17 CFR 200.30-3(a)(12).

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

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

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 the proposed rule change is to amend Chapter IV, Section 6 to expand the STO Program for non-index options so that the Exchange may change the current thirty option class limitation to fifty options classes on which STOs may be opened; list or add STOs within fifty percent (50%) above or below the price of the underlying security<sup>6</sup> 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 price of the underlying security from the preceding day if the price of the underlying security is less than or equal to \$20; open up to thirty STO series for each expiration date in an STO class; add additional STO strike price intervals to give the Exchange the ability to initiate strike prices in more granular intervals; provide for the ability to open up to five consecutive expirations under the STO Program; introduce finer strike price intervals for standard expiration contracts in option classes that also have STOs listed on them ("related non-STOs" or "related non-Short Term Options"); add delisting provisions; and in general harmonize the different parts of the Program.

The STO Program, which was initiated in 2010,<sup>7</sup> is codified in the Supplementary Material to Section 6 of Chapter IV at .07 for non-index options

<sup>6</sup> The price of the underlying security will be calculated commensurate with Supplementary Material .06(a) to Chapter IV, Section 6.

<sup>7</sup> See Securities Exchange Act Release No. 62505 (July 15, 2010), 75 FR 42792 (July 22, 2010) (SR-BX-2010-047) (notice of filing and immediate effectiveness to establish a Short Term Options Program).

including equity, currency, and exchange traded fund ("ETF") options.<sup>8</sup> 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>9</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 may be opened for trading.<sup>10</sup> Furthermore, the strike price of each STO 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.<sup>11</sup> The Exchange proposes in part to increase the number of STO classes that may be opened, match the opening of initial and additional STO strikes to what is permissible per the OLPP,<sup>12</sup> add

<sup>8</sup> The Exchange does not by this filing propose any changes to Chapter XIV, Section 11 related to the STO Program for index options.

<sup>9</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). See also Phlx Rule 1012 at Commentary .11(a).

<sup>10</sup> However, if the Exchange opens less than twenty (20) STOs 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. Supplementary Material .07(d) to Chapter IV, Section 6. The Exchange proposes, as discussed below, to change twenty (20) Short Term Option Series to thirty (30) Short Term Option Series to achieve consistency with other proposed rule changes.

<sup>11</sup> See Supplementary Material .07(d) of Chapter IV, Section 6.

<sup>12</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

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).

#### 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 Supplementary Material .07(a) of Chapter IV, Section 6 that the Exchange may select up to fifty currently listed option classes on which Short Term Option Series may be opened. The Exchange proposes also that for each option class eligible for participation in the STO Program, the Exchange may open up to thirty STO Series for each expiration date in that class.<sup>13</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.

Second, the Exchange proposes to indicate under what circumstances, subsequent to opening initial STO classes, additional STO strike prices

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 related to non-index options, while conforming to the current structure of the Exchange's STO rules, is similar in practical effect to the noted OLPP subsection.

<sup>13</sup> The current limitation is up to thirty currently listed option classes and up to twenty series for each expiration date in an STO class. See Supplementary Material .07(a) of Chapter IV, Section 6. The Exchange is proposing to include language in the rule that indicates that the addition of strike prices of STOs that are more than 50% above or below the current value of the underlying security (if the price is greater than \$20) must comply with the OLPP. The Exchange notes that the number of classes that may participate in the STOS Program is aggregated between equity options and index options and is not apportioned between equity options and index options.

may be added. Specifically, the Exchange proposes in Supplementary Material .07(c) to Chapter IV, Section 6 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 Supplementary Material .07(d) to Chapter IV, Section 6 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 Supplementary Material .07(d) to Chapter IV, Section 6 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 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. Market Makers trading for their own account are not considered when determining customer interest.<sup>14</sup> This is done to

<sup>14</sup> Supplementary Material .06(a) to Chapter IV, Section 6 currently states that if the price of the underlying security is greater than \$20, the Exchange shall not list new option series with an

conform the additional strike price methodology with the proposed 50% listing standard in the same subsections, and to ensure that the opening 30 Short Term Option Series language is consistent with other proposed changes,<sup>15</sup> while retaining the demonstrated interest language that may be useful in unforeseen circumstances.

Fourth, the Exchange proposes to add language to provide for circumstances where 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 is proposing to add new language to Chapter IV, Section 6 at Supplementary Material .07(d) to provide that 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. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened. This language will conform these rules to other exchange rules.<sup>16</sup>

Fifth, the Exchange proposes to indicate that the interval between strike prices and STOs listed in accordance with the STO Program 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;<sup>17</sup> (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

exercise price more than 50% above or below the price of the underlying security. Immediately before this language, the Exchange proposes to also add a carve-out that states: "Except as provided in Supplementary Material to Section 6 at .07(d) . . ."

<sup>15</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>16</sup> See Securities Exchange Act Release Nos. 70116 (August 5, 2013), 78 FR 48754 (August 9, 2013) (SR-Phlx-2013-79) and 71004 (December 6, 2013), 78 FR 75437 (December 11, 2013) (SR-Phlx-2013-101). See also Phlx Rule 1012, Commentary .11(d).

<sup>17</sup> STO strike price intervals may also be in \$1 increments in Related non-STOs that participate in the STO Program.

month prior to the expiration of such Related non-Short Term Option series in the same manner as permitted in Supplementary Material to Section 6 at .07 and in the same strike price intervals that are permitted in Supplementary Material to Section 6 at .07.

The principal reason for the proposed expansion is in response to market and customer demand to list actively traded products in more granular strike price intervals and to provide Exchange members and their customers increased trading opportunities in the Short Term Option Program, which is one of the most popular and quickly-expanding options expiration programs.<sup>18</sup> The Exchange has observed increased demand for STO classes and/or series, particularly when market moving events such as significant market volatility, corporate events, or large market, sector, or individual issue price swings have occurred. There are substantial benefits to market participants in the ability to trade eligible option classes at more granular strike price intervals. Furthermore, the Exchange supports the objective of responding to customer demand for harmonized listing between STO and Related non-Short Term Options and the availability of more granular strike price intervals.

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

<sup>18</sup> Since the inception of the Short Term Options Series Program, it has steadily expanded to the point that by the end of 2012, STOs represented 7% of the total options volume on the Exchange and 13% of the total options volume in the United States.

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 August 2014 monthly option will expire on Saturday, August 16, the proposed rule change will allow the Exchange to list the August 2014 monthly option in short term option intervals starting Monday, July 21. This language will conform these rules to other exchange rules.<sup>19</sup> The Exchange proposes to amend Chapter IV, Section 6(d)(vi) to amend the strike price interval setting parameters for Related non-Short Term Option series. Specifically, the Exchange proposes to add rule text which states, "notwithstanding any other provision regarding strike prices in Chapter IV, Section 6, non-Short Term Options that are on a class that has been selected to participate in the Short Term Option Series Program (referred to as a "Related non-Short Term Option series") shall be opened during the month prior to expiration in the same manner as permitted in Supplementary Material .07 to Chapter IV, Section 6 and in the same strike price intervals that are permitted in Supplementary Material .07 to Chapter IV, Section 6." This language is similar to Phlx rule text.<sup>20</sup>

Sixth, the Exchange is proposing to amend Supplementary Material .07 of Chapter IV, Section 6 to open up to five consecutive expirations under the STO Program for trading on the Exchange to allow for the Exchange to delist any series in the STOs that do not have open interest, and to expand the number of series of STOs under limited circumstances. This proposal seeks to allow the Exchange to open STO series for up to five consecutive week expirations. However, a STO expiration will not be added in the same week that a monthly options series expires or, in

<sup>19</sup> See Securities Exchange Act Release Nos. 67753 (August 29, 2012), 77FR 54635 (September 5, 2012) (SR-Phlx-2012-78); 69633 (May 23, 2013), 78 FR 32498 (May 30, 2013) (SR-Phlx-2013-55); 71004 (December 6, 2013), 78 FR 75437 (December 11, 2013) (SR-Phlx-2013-101); and 72504 (July 1, 2014), 79 FR 38628 (July 8, 2014) (SR-Phlx-2014-41).

<sup>20</sup> See Rule 1012 at Commentary .11(e).

the case of a Quarterly Options Series ("QOS"),<sup>21</sup> on an expiration that coincides with an expiration of QOS on the same class. In other words, the total number of consecutive expirations will be five, including existing monthly or quarterly expirations.<sup>22</sup> The Exchange believes that the current proposed revision to the STO Program will permit the Exchange to meet increased customer demand. The proposed revision will also provide market participants with the ability to trade and hedge in a greater number of option classes and series.

All options exchanges that have weeklies programs have similar rules regarding their own programs, and tend to emulate STO changes that are initiated by other options exchanges. The Exchange recognizes that while this may result in a potentially increased combined capacity footprint of exchanges with weeklies programs, the specific beneficial changes proposed in this filing greatly outweigh any such potential impact.

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>23</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

<sup>21</sup> See Supplementary Material .04 to Chapter IV, Section 6 for a discussion of Quarterly Options Series.

<sup>22</sup> For example, if QOS expire week 1 and monthly options expire week 3 from now, the proposal would allow the following expirations: Week 1 QOS, week 2 STOs, week 3 monthly, week 4 STOs, and week 5 STOs. If QOS expire week 3 and monthly options expire week 5, the following expirations would be allowed: Week 1 STOs, week 2 STOs, week 3 QOS, week 4 STOs, and week 5 monthly.

<sup>23</sup> These include, without limitation, options, equities, futures, derivatives, indexes, ETFs, exchange traded notes, currencies, and over the counter instruments.

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 STO classes or add STO 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>24</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>25</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>26</sup> The Exchange believes that weekly expiration options will continue to grow in importance for all market participants, including institutional and retail investors.<sup>27</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.

<sup>24</sup> Phlx noted, in its STO Program expansion proposal in 2011, that it was requested by a retail investor to reinstate an STO 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>25</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 has expanded by more than 3000%.

<sup>26</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>27</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 for non-index STOs by making it more uniform and logical.

By way of example, if an investor wants to gain exposure to a relatively higher priced security like GOOGL, he may invest in GOOGL stock and/or GOOGL 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 GOOGL. If the investor is looking to invest in a long position in GOOGL, for example, he may choose to execute a covered call strategy by selling calls on GOOGL. Assume GOOGL 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 approximately 46% (\$1/\$2.15), thus offering approximately 46% additional risk protection. To the investor writing covered calls on his GOOGL 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, the ability to make more targeted and efficient decisions regarding the protection of investments is 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 Short Term Option Series that may be listed are thirty. If the Exchange opens less than thirty Short Term Option Series, 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 and \$1 intervals). On day one, no more than thirty Short Term Option Series may be listed. If the Exchange opens less than thirty Short Term Option Series, 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 under the 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. If 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. If the MCD price moved to \$104, and there were no strikes at \$115 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 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>28</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>29</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>30</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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

<sup>28</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.

<sup>29</sup> 15 U.S.C. 78f(b).

<sup>30</sup> 15 U.S.C. 78f(b)(5).

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. Further, the amended rules will allow the Exchange to initiate strike prices in more granular intervals for STOs, which will benefit investors by providing them with the flexibility to more closely tailor their investment and hedging decisions. The Exchange also believes that it is reasonable to harmonize strike prices between STOs and Related non-Short Term Options during expiration month for Related non-Short Term Options, because doing so will ensure conformity between STOs and Related non-Short Term Options that are on the same class. While the proposed rule change may generate additional quote traffic, the Exchange does not believe that any increased traffic will become unmanageable since the proposal remains limited to a fixed number of classes. The Exchange also believes that the proposed rule change will ensure competition because it will allow the Exchange to initiate series in the same strike intervals as ISE, CBOE and other options exchanges.<sup>31</sup>

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 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.

The Exchange believes that the ability to delist series with no open interest in both the call and the put series will benefit investors by devoting the STO cap to those series that are more closely tailored to the investment decisions and hedging decisions of investors.

Finally, as noted herein, 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. 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.

#### *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**

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and by its terms does not 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>32</sup> of the Act and Rule 19b-4(f)(6)(iii) thereunder.<sup>33</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: Necessary or appropriate in the public interest; for the protection of investors; or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2014-038 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090. All submissions should refer to File Number SR-BX-2014-038. This file number should be included on the subject line if email 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

<sup>31</sup> See ISE Rule 504, CBOE Rule 5.5 and Phlx Rule 1012.

<sup>32</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>33</sup> 17 CFR 240.19b-4(f)(6)(iii).

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 Web site 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 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-BX-2014-038 and should be submitted on or before August 26, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>34</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

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**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72712; File No. SR-BX-2014-037]

### Self-Regulatory Organizations; NASDAQ OMX BX, Inc; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Disclose Publicly the Sources of Data Used for Exchange Functions

July 29, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on July 16, 2014, NASDAQ OMX BX, Inc. ("Exchange" or "BX") filed with the Securities and Exchange Commission ("Commission") a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit

comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

BX proposes a rule change to disclose publicly the sources of data, whether from the network processors or from direct data feeds, that BX utilizes when performing (1) order handling and execution; (2) order routing; and (3) related compliance processes.

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

In its filing with the Commission, BX is requesting a waiver of the requirement to provide notice of the proposed rule change.<sup>3</sup> [sic] 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 those 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 parts of such statements.

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

###### 1. Purpose

In her June 5, 2014 market structure speech, the Chair requested that all national securities exchanges review and disclose their policies and procedures governing the market data used when performing important exchange functions.<sup>4</sup> In a letter dated June 20, 2014, the Director of the Division of Trading and Markets codified this request:

We believe there is a need for clarity regarding whether (1) the SIP data feeds, (2) proprietary data feeds, or (3) a combination thereof, are used by the exchanges for purposes of (1) order handling and execution (e.g., with pegged or midpoint orders), (2) order routing, and (3) regulatory compliance, as applicable. . . . Accordingly, we ask that proposed rule changes be filed that disclose the particular market data feeds that are used for each of these purposes. Consistent with your recent discussions with Commission staff, we ask that each SRO file these

<sup>3</sup> On July 14, 2014, NASDAQ OMX did provide notice of an identical filing on behalf of the NASDAQ Stock Market LLC.

<sup>4</sup> See Mary Jo White, Chair, Securities and Exchange Commission, Speech at the Sandler O'Neill & Partners L.P. Global Exchange and Brokerage Conference (June 5, 2014).

proposed rule changes with the Commission by July 15, 2014.<sup>5</sup>

BX fully supports the Commission's efforts to provide more clarity in this area. Through this proposed rule change, BX is publicly clarifying on a market-by-market basis the specific network processor and proprietary data feeds that BX utilizes for the handling, routing, and execution of orders, and for performing the regulatory compliance checks related to each of those functions. These complex practices are governed by a few, simple principles that are designed to ensure that BX has the most accurate view of the trading interest available across multiple markets, and to maximize the synchronization of the many exchange functions that depend upon the calculation of an accurate NBBO and top-of-book for each market. These principles are:

1. BX uses a proprietary data feed from each exchange that provides a reliable proprietary data feed. Where no reliable proprietary data feed is available, BX uses the network processor feed;

2. Where BX uses a proprietary data feed for an exchange quote, it also maintains access to the network processor feed as a back-up in the event a specific proprietary feed become unavailable or unusable for any reason;

3. BX uses the same proprietary data feed when performing order handling, routing, and execution functions, and also when the execution and routing system performs internal compliance checks related to those functions; and

4. BX acquires and processes all proprietary and network processor feeds via the same technological configuration (i.e., telecommunication circuitry, switches, and feed handlers) to the greatest extent possible.

5. BX calculates the National Best Bid and Offer ("NBBO") and top-of-book for each exchange at a single point within the BX system, and then distributes that data simultaneously to numerous applications performing order handling,<sup>6</sup> routing, execution, and internal compliance functions throughout the BX system.

As of the date of this filing, BX utilizes the following data feeds for the handling, execution and routing of

<sup>5</sup> See Letter from Steven Luparello, Director, SEC Division of Trading and Markets, to Robert Greifeld, Chief Executive Officer, NASDAQ OMX Group, Inc., dated June 20, 2014.

<sup>6</sup> With respect to order handling, the NBBO and top-of-book calculation feeds applications governing the proper processing midpoint orders, pegged orders, price-to-comply orders, and retail orders.

<sup>34</sup> 17 CFR 200.30-3(a)(12).

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

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