

Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4File No.* SR - 2012 - * 11
Amendment No. (req. for Amendments *)

Proposed Rule Change by NASDAQ OMX PHLX LLC.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Rule

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

Exhibit 2 Sent As Paper Document Exhibit 3 Sent As Paper Document **Description**

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

Listing and Trading of PHLX FOREX Options

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 proposed rule change.

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 officer.

Date 01/23/2012

By Edward S. Knight
(Name *)Executive Vice President and General Counsel
(Title *)

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.

Edward S Knight,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required)

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

Exhibit 1 - Notice of Proposed Rule Change (required)

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") is filing with the Securities and Exchange Commission ("Commission") a proposal to implement new Phlx Rules 1000C (Applicability of Rule 1000C Series – PHLX FOREX OptionsTM)³; Rule 1001C (Definitions – PHLX FOREX Options); Rule 1002C (Series of PHLX FOREX Options Open for Trading); Rule 1003C (Obligations and Quote Spread Parameters Applicable to PHLX FOREX Options Specialists and Registered Options Traders); Rule 1004C (Bids And Offers of PHLX FOREX Options); Rule 1005C (Minimum Increments of PHLX FOREX Options); Rule 1006C (Closing Settlement Value of PHLX FOREX Options); Rule 1007C (FLEX - PHLX FOREX Options);⁴ Rule 1008C (Position Limits – PHLX FOREX Options); and Rule 1009C (Exercise Limits – PHLX FOREX Options) to: list and trade U.S. dollar-settled foreign currency ("foreign currency") options known as PHLX FOREX Options on the British

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ PHLX FOREX OptionsTM is a trademark of NASDAQ OMX PHLX LLC.

⁴ FLEX options are flexible exchange-traded options contracts that overlie index, equity, and currency securities. FLEX options provide investors with the ability to customize basic option features including size, expiration date, exercise style, and certain exercise prices. FLEX option trading is generally described in Rule 1079, which along with proposed Rule 1007C, is applicable to PHLX FOREX Options.

pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro.⁵

The Exchange also proposes to amend Phlx Option Floor Procedure Advices⁶ F-6 (Option Quote Parameters) and F-15 (Minor Infractions of Position/Exercise Limits and Hedge Exemptions) to properly harmonize Exchange Advices and rules.

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.

2. Procedures of the Self-Regulatory Organization

The Board of Directors of the Exchange (“Board”) approved the submission of this proposed rule change on December 19, 2011. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Jurij

Trypupenko, Associate General Counsel, NASDAQ OMX, at (301) 978-8132.

⁵ The proposed PHLX FOREX Options would be listed on underlying currencies that also underlie foreign currency options (“FCOs,” also known as World Currency Options or “WCOs”) currently listed on the Exchange (e.g. the British pound, the Swiss franc, the Canadian dollar, the Australian Dollar, the New Zealand dollar, and the Euro). The product specifications for the current FCOs (WCOs), which are not altered by or as a result of this filing, may be found at <http://www.nasdaqomxtrader.com/wco>.

⁶ Options Floor Procedure Advices (“OFPAs” or Advices”), which may correspond to Exchange rules, contain the Exchange’s minor rule plan (“MRP” or “Minor Rule Plan”) in respect of options trading. The Minor Rule Plan consists of Advices with preset fines, pursuant to Rule 19d-1(c) under the Act. 17 CFR 240.19d-1(c). The Exchange is not, by this filing, amending the fine schedule for any OFPA.

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

a. Purpose

The purpose of this filing is to establish new Rules 1000C through 1009C that would, in conjunction with current Exchange trading rules, allow listing and trading foreign exchange (also known as “Forex” or “FX”) options on the British Pound, the Swiss Franc, the Canadian Dollar, the Australian Dollar, the New Zealand dollar (“PHLX FOREX Options”). The Exchange is also amending Advices F-6 and F-15 to harmonize Exchange Advices and rules.

The primary difference between current WCOs or FCOs and proposed PHLX FOREX Options will be the pricing convention of PHLX FOREX Options based on the spot market prices for the underlying currencies. The proposed methodology or convention for pricing PHLX FOREX Options⁷ resembles the “spot market pricing” in use for currency futures and options on currency futures contracts⁸ on the same underlying currencies.⁹

⁷ See proposed Rule 1001C.

⁸ A currency futures contract is a transferable futures contract that specifies the price at which a currency can be bought or sold at a future expiration date.

⁹ CME Group Inc. (“CME”) lists and trades futures and options on futures contracts on many of the PHLX FOREX Options that are proposed to be listed and traded by the Exchange including the Australian dollar, the British pound, the Canadian dollar, and the Euro. Examples of settlement (closing) spot prices of futures contracts on these currencies (e.g. 1.0565 for the Euro) can be found at <http://ftp.cmegroup.com/pub/settle/stlcur>.

Background

The Exchange listed and traded physical delivery FCOs from 1982 through early 2007 through open outcry.¹⁰ In 2004, the Exchange's options trading platform, Phlx XL, was approved for options trading;¹¹ this allowed options on foreign currencies to be traded electronically as well as manually. In January 2007, the Exchange listed and began trading cash-settled FCOs on the British pound and the Euro.¹² In July 2007, the Exchange listed and began trading FCOs on the Australian dollar, Canadian dollar, Swiss franc, and Japanese yen.¹³ In June 2009, the Exchange received approval to list ten additional FCOs (WCOs) and to change their pricing convention so that it was similar to the pricing convention used for index options by adding multipliers to spot currency prices.¹⁴

¹⁰ The last physical delivery FCOs that were listed on the Exchange were traded out or expired by March 2007.

¹¹ See Securities Exchange Act Release No. 49832 (June 8, 2004), 69 FR 33442 (June 15, 2004)(SR-Phlx-2003-59)(approving Phlx XL). See also Release No. 59995 (May 28, 2009) SR-Phlx-2009-32 (approving Phlx XL II, the Exchange's new electronic trading platform).

¹² See Securities Exchange Act Release No. 54989 (December 21, 2006), 71 FR 78506 (December 29, 2006)(SR-Phlx-2006-34). In approving the listing and trading of FCOs on the British pound and the Euro, the approval order stated that the listing and trading of additional FCOs on other foreign currencies will require the Exchange to file additional proposed rule changes on Form 19b-4.

¹³ See Securities Exchange Act Release No. 56034 (July 10, 2007), 72 FR 38853 (July 16, 2007)(SR-Phlx-2007-34).

¹⁴ The ten additional FCOs (WCOs) approved for listing and trading were the Mexican peso, the Brazilian real, the Chinese yuan (also known as the renminbi), the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona. See Securities Exchange Act Release No. 60169 (June 24, 2009), 74 FR 31782 (July 2, 2009)(SR-Phlx-2009-40)(approval order). This filing also deleted all reference

The Exchange currently lists eleven FCOs (WCOs).¹⁵ These options trade in the manual auction market as well as electronically.

This proposal allows the Exchange to list and trade PHLX FOREX Options on six of the same foreign currencies that underlie foreign currency options (FCOs or WCOs) that are currently traded on the Exchange, namely the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro. The proposal allows PHLX FOREX Options to be listed and traded in parallel to current FCOs (WCOs) and in a similar manner, by using the proposed PHLX FOREX Option rules in conjunction with existing Exchange rules and processes for foreign currency options (FCOs or WCOs). The proposal does not affect the continued listing and trading of FCOs or WCOs on the Exchange. Moreover, to minimize investor confusion during such time, if any, that PHLX FOREX Options and FCOs (WCOs) are traded on the Exchange in parallel on the same underlying currencies, the Exchange intends to engage in an educational effort to inform potential traders and investors about the differences in the PHLX FOREX Options and FCO (WCO) products.¹⁶

to customized FCOs, which had ceased being traded on the Exchange. See also supra note 10.

¹⁵ The currencies underlying these FCOs (WCOs) include: the Australian dollar, the British pound, the Canadian dollar, the Euro, the Japanese yen, the Mexican peso, the New Zealand dollar, the Norwegian krone, the South African rand, the Swedish krona, and the Swiss franc.

¹⁶ For example, as discussed in the filing the pricing of PHLX FOREX Options and FCOs (WCOs) would be different in that the pricing of a Euro PHLX FOREX Option would resemble spot market pricing (e.g. 1.0031) while the pricing of a Euro FCO (WCO) would resemble index option pricing (e.g. 100.31). And, the pricing symbology would be different in that PHLX FOREX Option prices would be reflected to four decimal places and FCOs (WCOs) prices to two places.

PHLX FOREX Options listed by the Exchange would, like WCOs or FCOs, be cleared by The Options Clearing Corporation ("OCC")¹⁷ and would be European style.¹⁸ Upon exercise, holders of options contracts would receive U.S. dollars representing the difference between the exchange rate and the exercise price of the option,¹⁹ which would be multiplied by the units of currency²⁰ in each PHLX FOREX Option contract. For example, upon exercise of an in-the-money PHLX FOREX Options call option, the holder would receive from OCC U.S. dollars representing the difference between the exercise price and the closing settlement value of the cash-settled option contract multiplied by the units of currency. Upon exercise of an in-the-money PHLX FOREX Options put option, the holder would receive from OCC U.S. dollars representing the excess of the exercise price over the closing settlement value of the cash-settled option contract multiplied by the units of currency. Additionally, PHLX FOREX Options that are in-the-money by any amount on the expiration date would be exercised automatically by OCC, while PHLX FOREX Options that are out-of-the-money on the expiration date would expire worthless.

¹⁷ See Securities Exchange Act Release No. 54935 (December 13, 2006), 71 FR 76417 (December 20, 2006)(SR-OCC-2006-10)(proposing to amend OCC's by-laws and rules to accommodate the clearance and settlement of the Exchange's WCOs or FCOs).

¹⁸ Unlike American style options, European style options may be exercised only on the day that they expire.

¹⁹ Proposed Rule 1006C.

²⁰ Each PHLX FOREX Option contract for the six currencies discussed in this filing would, like each WCO or FCO contract, have 10,000 units of currency. The product specifications for the new PHLX FOREX Options may be found at <http://www.nasdaqomxtrader.com/wco>.

The Proposal

The changes proposed herein regarding the methodology or convention of pricing PHLX FOREX Options would, as noted, closely resemble the “spot market pricing” that has been in use for decades for futures and options on futures contracts on the currencies that underlie PHLX FOREX Options. The Exchange receives spot market prices for currencies underlying the FCOs (WCOs) from a data vendor, which at this time is SIX Telekurs,²¹ and converts such spot market prices to Exchange Spot Prices by applying an appropriate multiplier (e.g. 100 or 1000).²² Currently, the closing settlement value for FCO (WCO) settlement purposes is the Exchange Spot Price at 12:00:00 Eastern Time (noon) on the last trading day prior to expiration.²³ The Exchange currently generates a settlement value report for each underlying currency; and publicly disseminates unique

²¹ SIX Telekurs specializes in the procurement, processing and distribution of international financial information for investment advisory services, fund administration, portfolio management, financial analysis and securities administration. SIX Telekurs collects data directly from hundreds of contributors and exchanges as well as more than thirty (30) worldwide contributing banks. This data is, as discussed, the basis for the foreign currency spot market prices that SIX Telekurs provides to the Exchange.

The Exchange notes that spot market prices for currencies underlying PHLX FOREX Options are also calculated by other entities and available to investors from other sources such as market data vendors Bloomberg, Reuters, and Thomson. Investors can also get spot market prices for free from sources such as <http://finance.yahoo.com/> and <http://www.allstocks.com/1bigcharts.htm>; as well as from brokers with whom investors have a trading account.

²² For a definition of Exchange Spot Price, see Rule 1000(b)16. The International Securities Exchange, LLC (“ISE”) similarly applies multipliers to its cash-settled rate-modified currency options (which are not fungible with Phlx’s WCOs or FCOs) so that they tend to look like the prices of index and other options. See Exchange Act Release No. 55575 (April 3, 2007), 72 FR 17963 (April 10, 2007)(SR-ISE-2006-59).

²³ See Rule 1057.

FCO (WCO) trading symbols and settlement values in order to differentiate between live underlying markets and 12:00:00 noon FCO (WCO) settlement prices.

For PHLX FOREX Options, however, the Exchange will not use Exchange Spot Prices for settlement (or any other) purpose. Instead, the Exchange will use the spot market prices that it receives from SIX Telekurs or another data vendor at 12:00:00 Eastern Time (noon) on the last trading day prior to expiration to calculate settlement values – but will not apply any multiplier as it does for FCOs (WCOs).²⁴ These PHLX FOREX Option settlement values will be, similarly to FCOs (WCOs), publicly disseminated with unique trading symbols to differentiate between live underlying markets and 12:00:00 Eastern Time (noon) PHLX FOREX Option settlement prices. Except for applying multipliers for FCO (WCO) settlement values, the settlement value methodologies will largely be similar for PHLX FOREX Options and FCOs (WCOs). As an example, the July 2012 settlement value of a PHLX FOREX Option on the Euro may be \$1.4338 based on the spot market price of the underlying currency; whereas the July 2012 settlement value price of a WCO (FCO) on the Euro may be \$143.38 based on the application of a 100 multiplier to the similar spot market price.

PHLX FOREX Options will, as discussed, be similar - and in many respects identical - to FCOs (WCOs) and will trade in a like fashion. As such, in the proposed rules the Exchange initially sets forth the principle that its existing rules and procedures would be applicable to PHLX FOREX Options and the proposed PHLX FOREX Options rules would supplement existing rules. Specifically, new Rule 1000C states that unless otherwise specified, the proposed rules in the Rule 1000C series of rules (“Rule 1000C

²⁴ Proposed Rule 1006C.

Series”) are applicable only to PHLX FOREX Options. Rule 1000C states that except to the extent that specific rules in the Rule 1000C Series govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to foreign currency options²⁵ and of the By-Laws²⁶ and all other Rules and Policies of the Board of Directors²⁷ are applicable to the trading on the Exchange of PHLX FOREX Options.

Definitions

PHLX FOREX Options are defined in Rule 1001C. Specifically, Subsection (a)(1) states that the term "PHLX FOREX Option" means: (i) a U.S. dollar-settled foreign currency option contract, (ii) on the standard unit of an underlying currency (discussed below) that is the official medium of exchange of a sovereign government including the United States Government (e.g., the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, or the Euro). This is identical to current WCO or FCO options.²⁸ However, subsection (iii) also states that a PHLX FOREX Option will use the spot market price of the underlying currency for pricing and for settlement. This third characteristic of PHLX FOREX Options represents the crucial difference between PHLX FOREX Options and WCOs or FCOs: the pricing of PHLX FOREX Options (whether intra-day, end of day, or settlement pricing) will be based on the relevant underlying currency and will therefore resemble the spot market pricing of futures on the relevant underlying currency - without application of a multiplier as for

²⁵ Option Rules 1000 et seq. and 1000A et seq.

²⁶ By-Laws Articles I to VII.

²⁷ Rules of the Exchange Rule 1 et seq. and Options Floor Procedure Advices.

²⁸ Rule 1000(b)(13).

WCOs or FCOs. As a result, where the price for Euro PHLX FOREX Options might read 1.4732, the Exchange Spot Market Price for Euro WCOs or FCOs might read 147.32.

The term "unit of underlying foreign currency" in respect of PHLX FOREX Options is defined in subsection (a)(2) of Rule 1001C to mean a single unit of the foreign currency. This is identical to the definition of underlying currency for WCOs or FCOs. Thus, a unit of currency underlying a Euro PHLX FOREX Options or a British Pound PHLX FOREX Options would be one Euro or one British pound, respectively.

Opening and Adding New PHLX FOREX Options

The Exchange proposes Rule 1002C regarding the series of underlying PHLX FOREX Options that may be opened for trading after a particular class of PHLX FOREX Option has been approved for listing and trading on the Exchange. Specifically, the Exchange proposes subsection (a)(i) stating that at the commencement of trading on the Exchange of a particular class of PHLX FOREX Options, the Exchange will open a minimum of one expiration month and series for each class of options open for trading on the Exchange.²⁹ The exercise price of each series of PHLX FOREX Options opened for trading on the Exchange will be fixed in terms of U.S. dollars per unit of the underlying currency at a price per unit which is reasonably close to the current spot market price of the underlying foreign currency in the foreign exchange market at or before the time such series of options is first opened for trading on the Exchange. This is the same as the procedure for opening initial months and series and fixing expiration terms of equity

²⁹ The Exchange notes that it currently intends to open two quarterly and two additional near-term months.

options and index options on the Exchange, and continues the process of harmonizing exchange rules in the listing area.³⁰

Regarding additional series of options, proposed subsection (a)(ii) to Rule 1002C states that additional series of PHLX FOREX Options of the same class 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 stock moves more than five strike prices from the initial exercise price or prices.³¹

Regarding long-term options, proposed subsection (a)(iii) states that with respect to any class of PHLX FOREX Options series the Exchange may list options having up to thirty-nine months from the time they are listed until expiration (with up to six additional expiration months). Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.

³⁰ For recent proposals harmonizing Exchange rule provisions regarding opening and adding equity and index options, see Securities Exchange Act Release Nos. 64741 (June 24, 2011), 76 FR 38444 (June 30, 2011)(SR-Phlx-2011-65)(order approving); 63700 (January 11, 2011), 76 FR 2931(January 18, 2011)(SR-Phlx-2011-04)(notice of filing and immediate effectiveness; and 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008)(SR-NASDAQ-2007-004 and NASDAQ-2007-080)(order approving). The Exchange notes that the opening of FCOs (WCOs) has not yet been harmonized to the one month one series standard.

³¹ Proposed subsection (a)(ii) to Rule 1002C states further: The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add a new series of PHLX FOREX Options until five (5) business days prior to expiration.

Pricing of PHLX FOREX Options

Proposed subsection (b) of Rule 1002C states that for each expiration of PHLX FOREX Options, the Exchange may initially list exercise strike prices within a 40 percent band around the current spot market price for an underlying currency for a PHLX FOREX Option (known as the “spot market”). These options could be listed at \$.0050 intervals. As the spot market moves, the Exchange may list new strike prices that, at the time of listing, do not exceed the spot market by more than 20 percent and are not less than the spot market by more than 20 percent (commensurate with the 40 percent band). For example, if at the time of initial listing, the spot market of the Euro is at \$1.000 the strike prices the Exchange would list for the PHLX FOREX Option will be \$.800 to \$1.20 in \$.0050 intervals. If the spot market then moves to \$1.3050, the Exchange may list additional strikes at the following prices in \$.0050 intervals: \$1.045 to \$1.565. The spot market pricing convention is reflected in other proposed rules.

The quote spread parameters (or bid/ask differentials) with respect to PHLX FOREX Options are noted in subsection (a) of Rule 1003C, which is applicable to PHLX FOREX Options specialists and Registered Options Traders (“ROTs”). In subsection (a), the Exchange proposes to use the spot market price convention but move the decimal point two places to the right so that a bid and/or offer differential of \$.0025 would be “expressed as” \$.25 for trading purposes.³² Regarding electronic quotations, the

³² Proposed subsection (a) to Rule 1003C states in full: With respect to all PHLX FOREX Options, bidding and/or offering so as to create differences of no more than \$.0025 (expressed as \$.25) between the bid and the offer for each option contract for which the prevailing bid is less than \$.0200 (expressed as \$2.00); no more than \$.0040 (expressed as \$.40) where the prevailing bid is \$.0200 (expressed as \$2.00) or more but less than \$.0500 (expressed as \$5.00); no more than \$.0050 (expressed as \$.50) where the prevailing bid is \$.0500 (expressed as

Exchange proposes to state in subsection (b) to Rule 1003C that PHLX FOREX Options may be quoted electronically with a difference not to exceed \$.0500 (expressed as \$5.00) between the bid and offer regardless of the price of the bid.³³ The Exchange believes that because such proposed “expressed as” price demarcations are similar to how prices are now expressed for equity options, it would be easier for PHLX FOREX Options participants to use the expressed as pricing for trading purposes.³⁴ “Expressed as” pricing is used in several other proposed PHLX FOREX Option rules.

Proposed Rule 1004C regarding bids and offers of PHLX FOREX Options states that except as provided in paragraph (b) and (c) of that Rule (contract adjustments and spread type priority),³⁵ all bids or offers made on the Exchange floor for PHLX FOREX

\$5.00) or more but less than \$.1000 (expressed as \$10.00); no more than \$.0080 (expressed as \$.80) where the prevailing bid is \$.1000 (expressed as \$10.00) or more but less than \$.2000 (expressed as \$20.00); and no more than \$.0100 (expressed as \$1.00) where the prevailing bid is \$.2000 (expressed as \$20.00). Proposed OFPA F-6 is similar.

³³ Proposed subsection (b) to Rule 1003C states further: The bid/ask differentials set forth in this subparagraph (b) only applies to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (a) above shall apply during opening rotation). Quotations provided in open outcry may not be made with bid/ask differentials set forth in this subparagraph (b) and instead must comply with the legal bid/ask differential requirements described in sub-paragraph (a) above and not in this subparagraph (b).

³⁴ As an example, it would be unwieldy for a trader in a crowd to have to announce that he is improving a price by .0010 (one tenth of a penny). The “expressed as” price would allow the trader to announce that he is improving the price by ten cents or a dime.

³⁵ Proposed Rule 1004C subsection (b) states: All bids or offers for an option contract for which the Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the by-laws of the Options Clearing Corporation shall be expressed in terms

Option contracts shall be expressed in terms of U.S. dollars per unit of the underlying foreign currency. The example given in the rule is that a bid of “.0325” (which would be expressed as "3.25") for a premium on a \$1.70 strike price option on the British pound would represent a bid to pay \$325 per option contract.

The minimum trading increment for PHLX FOREX Options is set forth in proposed Rule 1005C. Subsection (a) states that all PHLX FOREX Options where the underlying foreign currency is not the U.S. dollar (unless a PHLX FOREX Options pair) shall have a minimum increment of \$.0001 but will be expressed for trading as \$.01. Subsection (b) adds that different, higher, minimum increments may, however, be fixed by the Exchange for option contracts of a particular series of PHLX FOREX Options. This information will be posted on the Exchange’s web site.

Position and Exercise Limits for PHLX FOREX Options

Proposed Rule 1008C establishes that the new PHLX FOREX Options, namely the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro, will each have a position limit of 1,200,000 contracts. The

of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading.

Proposed Rule 1004C subsection (c) states: When a member holding a hedge order, as defined in Rule 1066 and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a hedge order at the total credit or debit with one other member with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit, provided that, the member executes at least one option leg at a better price than established bid or offer for that option contract AND no option leg is executed at a price outside of the established bid or offer for that option contract.

proposed position limit for PHLX FOREX Options is identical to the current position limit for FCOs (WCOs) on Euros. The Exchange believes that it is proper to keep the proposed position limit at 1.2 million contracts for each such FX Option overlying a major foreign currency,³⁶ as this would further the goal of eliminating investor confusion by standardizing proposed PHLX FOREX Options. The proposed rule also establishes that if a PHLX FOREX Option and an FCO (WCO) are listed on the same underlying currency (e.g. a Euro PHLX FOREX Option and a Euro FCO (WCO)), then the position for each such option on the same underlying currency will be aggregated for purposes of determining compliance with the position limit established in this rule.

Historically, position and exercise limits have served as a regulatory tool designed to address manipulative schemes and adverse market impact surrounding the use of options. Since the inception of standardized options trading, the options exchanges have had rules limiting the aggregate number of options contracts that a member or customer may hold or exercise. Thus, position and exercise limits have been established for FCOs

³⁶ The six major foreign currencies that underlie PHLX FOREX Options are all within the top ten most traded foreign currencies in the world, and represent a 72.9% share of the daily market turnover (excluding U.S. dollars). Moreover, these underlying foreign currencies are very liquid, such that in 2010 the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro had an average daily volume, in billions of U.S. dollars, of 360, 168, 182, 249, 4, and 1,101, respectively. Source: Bank for International Settlements (BIS) Triennial Central Bank Survey, Report on Global Foreign Exchange Market Activity in 2010.

(WCOs) trading on the Exchange;³⁷ and a 1.2 million contract position and exercise limit has, in particular, been successfully used for trading Euro FCOs (WCOs).³⁸

Position limit rules have also, where needed, historically included aggregation of positions among certain products. These include, as an example, options on lower-volume proprietary indexes and the components of such indexes, and full value and reduced value indexes.³⁹ Aggregation would be applied in such circumstances because of the potential ability to influence price by amassing large positions in such proprietary lower-volume or clearly related products.

The products underlying PHLX FOREX Options, namely foreign currencies, are traded on the global foreign exchange (FX) market that is considered to be one of the largest, most liquid financial markets in the world, with a \$4.0 trillion average daily turnover in 2010.⁴⁰ The huge foreign exchange trading volume represents the largest

³⁷ Rule 1001 and 1002. These rules also establish limits for equity and ETF options.

³⁸ See Securities Exchange Act Release No. 60169 (June 24, 2009), 74 FR 31789 (July 2, 2009)(SR-Phlx-2009-40)(order approving). Position limits for non-Euro foreign currency options are 600,000 contracts. See also Securities Exchange Act Release No. 64695 (June 17, 2011), 76 FR 36942 (June 23, 2011)(SR-Phlx-2011-58)(order approving position limit increase for options on Standard and Poor's(R) Depository Receipts (SPDRs(R))).

³⁹ See Rules 1001A subsection (f) (regarding proprietary Alpha Index aggregation) and subsection (e) (regarding full and reduced-value index aggregation).

⁴⁰ It has been observed that the average daily turnover of the FX market is equivalent to: more than 12 times the average daily turnover of global equity markets (about \$320 billion - World Federation of Exchanges aggregate 2009); more than 50 times the average daily turnover of the NYSE (about \$70 billion - World Federation of Exchanges 2009); more than \$500 a day for every man, woman, and child on earth (based on world population of 6.9 billion - US Census Bureau); and an annual turnover more than 10 times world GDP (about \$58 trillion - World Bank 2009). Source: Bank for International Settlements (BIS) Triennial Central Bank Survey 2010.

asset class in the world and the highest liquidity among investment vehicles.

Notwithstanding, based on informal communications with Commission staff, wherein staff expressed a general preference for aggregation of related products, in Rule 1008C the Exchange is proposing aggregation for PHLX FOREX Options and FCOs (WCOs) that are listed on the same underlying currency. For purposes of conformity, in Commentary .05 of Rule 1001 the Exchange is proposing similar aggregation language in respect of foreign currency options (FCOs or WCOs).

Finally, the Exchange notes that the six current FCOs (WCOs) that are based on the currencies that would also underlie PHLX FOREX Options have not experienced problems attributable to position limits.

Proposed Rule 1009C establishes that the exercise limits for options on PHLX FOREX Options will be equivalent to the position limits prescribed in Rule 1008C.

Closing Settlement Value of PHLX FOREX Options

PHLX FOREX Options will use a closing settlement value methodology that is identical to what is currently being used for FCOs (WCOs) with one distinction. Calculating settlement value for PHLX FOREX Options will use the spot market price, whereas WCOs or FCOs currently use the Exchange Spot Price. This is set forth in proposed Rule 1006C, which states that the closing settlement value for PHLX FOREX Options and for FLEX PHLX FOREX Options on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, and the New Zealand dollar shall be the spot market price at 12:00:00 Eastern Time (noon) on the last trading day prior to expiration unless the Exchange determines to apply an alternative closing settlement

value as a result of extraordinary circumstances.⁴¹ The rule states that, like with WCOs and FCOs, PHLX FOREX Options will be settled in U.S. dollars per unit of underlying currency; and that the Exchange will disseminate the closing settlement value through one or more major market data vendors. The rule also indicates that the disclaimer of liability that is applicable to WCOs and FCOs is likewise applicable to PHLX FOREX Options.⁴² The Exchange will disseminate PHLX FOREX Option closing settlement values on its website.

FLEX - PHLX FOREX Options

Rule 1079 deals with the process of listing and trading FLEX equity, index, and foreign currency options (WCOs and FCOs) on the Exchange. The rule states that FLEX options are available for foreign currency options (FCOs and WCOs) and discusses, among other things: opening FLEX options trading through the Request-for-Quote (“RFQ”) process; quotes responsive to RFQs; trading parameters and procedures; and position and exercise limits for FLEX options. The Exchange is adding proposed Rule

⁴¹ The expiration date for PHLX FOREX Options would be the Saturday following the third Friday of the expiration month, and the last trading day would be the third Friday of the expiration month. This is similar to WCOs or FCOs.

⁴² The disclaimer of liability in proposed Rule 1006C states: Neither the Exchange, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current settlement value or the closing settlement value resulting from an act, condition, or cause beyond the reasonable control of the Exchange including but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission, or delay in the reports of transactions in one or more underlying currencies or any error, omission or delay in the reports of the current settlement value or the closing settlement value by the Exchange.

1007C stating that the FLEX procedures set forth in Rule 1079 in respect of foreign currency options will also be applicable to PHLX FOREX Options.

Systems Capacity and Surveillance

The Exchange represents that it has the necessary systems capacity to support new options series that will result from the introduction of PHLX FOREX Options on the Exchange. The Exchange represents that it has an adequate surveillance program in place for trading WCOs or FCOs. The Exchange will apply the same surveillance program to PHLX FOREX Options that it uses for WCOs or FCOs.⁴³ Therefore, the Exchange represents that it has adequate surveillance for PHLX FOREX Options.

Applicability of Rules for Foreign Currency Options

As noted, proposed Rule 1000C establishes the principal that except to the extent that specific rules in the Rule 1000C Series govern, or unless the context otherwise requires, the provisions of Exchange Option Rules applicable to foreign currency options (WCOs or FCOs), Exchange By-Laws, and Rules and Policies of the Board of Directors are applicable to the trading on the Exchange of PHLX FOREX Options.⁴⁴ An example

⁴³ The Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, which was modernized in 2008, and may obtain trading information via the ISG from other exchanges who are members or affiliates of the ISG. The members of the ISG include all of the U.S. registered stock and options markets. The ISG members work together to coordinate surveillance and investigative information sharing in the stock and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses.

⁴⁴ Proposed Rule 1000C is modeled on, and essentially the same as, current Rule 1000A. This is the primary rule in the Exchange's 1000A Series of rules for index options, and has continuously been in use for more than twenty-five years. See Securities Exchange Act Release No. 20437 (December 2, 1983), 48 FR 55229 (December 9, 1983)(SR-Phlx-83-17)(order approving the 1000A Series of

of the applicability of an exchange trading rule is Rule 1014, which, among other things, generally discusses obligations and quote spread parameters applicable to foreign currency option and other types of specialists and ROTs. Proposed Rule 1003C supplements Rule 1014 by stating that with respect to classes of option contracts to which a specialist or ROT assignment extends, a specialist and an ROT, whenever the ROT (except a Remote Streaming Quote Trader or RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker⁴⁵ to make a market, the specialist and ROT should exhibit certain behavior. In particular the rule states that the assigned specialist and ROT is expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.

PHLX FOREX Options will follow the rules, some of which are supplemented by this filing, that are currently applicable to foreign currency options (WCOs or FCOs).⁴⁶ These include rules that pertain to areas such as, for example, hours of trading, quoting

rules). Other securities markets use an analogous approach. See, for example, CBOE Chapter XXVIII (regarding corporate debt securities); ISE Rule 2131 (regarding portfolio depository receipts); BATS BZX Exchange Rule 14.11 (regarding managed fund shares); NASDAQ Rule 2841 (regarding warrants); and NOM Rule 2 (regarding rules on NASDAQ Options Market).

⁴⁵ For definitions of specialist, RSQT, Options Exchange Official, and Floor Broker, see Rules 1020, 1014(b)(ii)(B), 1(w) and 1060, respectively.

⁴⁶ See proposed Rule 1000C and *infra* note 45.

and market making requirements, margin requirements, reporting options positions, filing trade information, and FLEX trading.⁴⁷

Option Floor Procedure Advices

The Exchange proposes to amend Advice F-6 to reflect “expressed as” pricing for maximum quotes spread parameters in light of bid and ask differentials. This is done to harmonize Advice F-6 with its corresponding proposed rule 1003C, so that the same pricing is reflected in the rule and the Advice.

The Exchange also proposes to amend Advice F-15, which discusses minor infractions of position/exercise limits and hedge exemptions, to reflect the addition of proposed Rules 1008C and 1009C. This is done to harmonize Advice F-15 with its corresponding proposed Rules 1008C and 1009C, and thereby include minor violations of the proposed rules in the Exchange’s Minor Rule Plan as reflected in the Advices.

Conclusion

The Exchange believes that PHLX FOREX Options using a pricing structure that is similar to that of underlying currencies in the interbank currency market represent a

⁴⁷ Rules 101, 1014, 721, 1003, 1053, and 1079, respectively. Other Exchange rules that are applicable to the trading of foreign currency options products include Rules 1006 (Other Restrictions on Exchange Options Transactions and Exercises); 1014 (Obligations and Restrictions Applicable to Specialists and Registered Options Traders); 1022 (Securities Accounts and Orders of Specialists and Registered Options Traders); 1024 (Conduct of Accounts for Options Trading); 1025 (Supervision of Accounts); 1027 (Discretionary Accounts); 1028 (Confirmations); 1039 (Resolution Of Uncompared Trade); 1043 (Allocation of Exercise Notices); 1044 (Delivery and Payment); 1045 (Officers And Employees Restricted); 1047 (Trading Rotations, Halts and Suspensions); 1049 (Communications to Customers); 1063 (Responsibilities of Floor Brokers); 1064 (Crossing, Facilitation and Solicited Orders); 1066 (Certain Types of Orders Defined); 1068 (Execution of Multi-Part Orders); 1080 (Phlx XL and Phlx XL II); 1083 (Order Protection; Locked and Crossed Markets); 1089 (Dealing Directly With Specialist and Registered Option Trader in Foreign Currency Options); and 1092 (Obvious Errors and Catastrophic Errors).

leveraged derivative instrument that, from a competitive perspective, provides a familiarly-priced leveraged currency product on a regulated listed options market. PHLX FOREX Options should increase product competition, encourage trading, and provide additional investment and hedging opportunities for traders, market participants, and investors (to include retail and public investors).

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁴⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act⁴⁹ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The proposal should minimize or eliminate investor confusion by aligning the pricing and trading of PHLX FOREX Options to established methodologies. PHLX FOREX Options would use a pricing structure that is similar to the pricing structure that has been used in the interbank currency market for decades for currencies that underlie PHLX FOREX Options (as well as for other currencies). Traders of PHLX FOREX Options would have the ability, however, to express prices of such options for trading purposes in a familiar style that is used for trading other options on the Exchange.⁵⁰

⁴⁸ 15 U.S.C. 78f(b).

⁴⁹ 15 U.S.C. 78f(b)(5).

⁵⁰ As an example, instead of a trader having to indicate that he is improving the price of a Euro PHLX FOREX Option by .0010 (one tenth of a penny), the trader would express that he is improving the price by ten cents or a dime. See also supra note 34.

At the same time, PHLX FOREX Options would be largely similar in structure to foreign currency options listed on the Exchange (FCOs or WCOs), and would trade in a like manner. The process for trading PHLX FOREX Options will be similar to the process that has been used for years, and continues being used, on the Exchange for trading foreign currency options (FCOs and WCOs).⁵¹ The current foreign currency options trading process will be enhanced by the Rule 1000C Series of proposed PHLX FOREX Options rules,⁵² which will supplement existing trading rules.

In addition, the Exchange will discuss the proposal in an OTA. In particular, the Exchange intends to educate members about the structure and trading procedure for PHLX FOREX Options as one of two foreign currency products that may be traded in parallel on the Exchange with the approval of this proposal. The Exchange believes that this will serve to minimize investor confusion while promoting investor protection.

The Exchange believes that the proposed PHLX FOREX Options will offer market participants a leveraged derivative foreign currency product that, from a competitive perspective, should increase product competition, encourage trading, and provide additional investment and hedging opportunities for traders, market participants, and investors.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Phlx does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

⁵¹ For applicable FCO (WCO) trading rules, see supra note 47.

⁵² Proposed Rules 1000C through 1009C.

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

The Exchange does not consent to an extension of the time period for Commission action.

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

The Exchange requests accelerated effectiveness pursuant to Section 19(b)(2) of the Act⁵³ so that, for competitive purposes, the Exchange may provide traders and investors interested in options on foreign currencies the largest breadth of products as soon as possible. PHLX FOREX Options should increase product competition, encourage trading, and provide additional investment and hedging opportunities for traders, market participants, and investors (to include retail and public investors).

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

Not applicable.

9. Exhibits

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

5. Proposed rule text.

⁵³ 15 U.S.C. 78s(b)(2).

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2012-11)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by NASDAQ OMX PHLX LLC Regarding Listing and Trading of PHLX FOREX OptionsTM

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4² thereunder, notice is hereby given that on January 23, 2012, 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 Securities and Exchange Commission ("Commission") a proposal to implement new Phlx Rules 1000C (Applicability of Rule 1000C Series – PHLX FOREX OptionsTM)³; Rule 1001C (Definitions – PHLX FOREX Options); Rule 1002C (Series of PHLX FOREX Options Open for Trading); Rule 1003C (Obligations and Quote Spread Parameters Applicable to PHLX FOREX Options Specialists and Registered Options Traders); Rule 1004C (Bids And Offers of PHLX FOREX Options); Rule 1005C (Minimum Increments of PHLX FOREX Options); Rule

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ PHLX FOREX OptionsTM is a trademark of NASDAQ OMX PHLX LLC.

1006C (Closing Settlement Value of PHLX FOREX Options); Rule 1007C (FLEX - PHLX FOREX Options);⁴ Rule 1008C (Position Limits – PHLX FOREX Options); and Rule 1009C (Exercise Limits – PHLX FOREX Options) to: list and trade U.S. dollar-settled foreign currency (“foreign currency”) options known as PHLX FOREX Options on the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro.⁵

The Exchange also proposes to amend Phlx Option Floor Procedure Advices⁶ F-6 (Option Quote Parameters) and F-15 (Minor Infractions of Position/Exercise Limits and Hedge Exemptions) to properly harmonize Exchange Advices and rules.

The text of the proposed rule change is available on the Exchange’s Website at <http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

⁴ FLEX options are flexible exchange-traded options contracts that overlie index, equity, and currency securities. FLEX options provide investors with the ability to customize basic option features including size, expiration date, exercise style, and certain exercise prices. FLEX option trading is generally described in Rule 1079, which along with proposed Rule 1007C, is applicable to PHLX FOREX Options.

⁵ The proposed PHLX FOREX Options would be listed on underlying currencies that also underlie foreign currency options (“FCOs,” also known as World Currency Options or “WCOs”) currently listed on the Exchange (e.g. the British pound, the Swiss franc, the Canadian dollar, the Australian Dollar, the New Zealand dollar, and the Euro). The product specifications for the current FCOs (WCOs), which are not altered by or as a result of this filing, may be found at <http://www.nasdaqomxtrader.com/wco>.

⁶ Options Floor Procedure Advices (“OFPAs” or Advices”), which may correspond to Exchange rules, contain the Exchange’s minor rule plan (“MRP” or “Minor Rule Plan”) in respect of options trading. The Minor Rule Plan consists of Advices with preset fines, pursuant to Rule 19d-1(c) under the Act. 17 CFR 240.19d-1(c). The Exchange is not, by this filing, amending the fine schedule for any OFPA.

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 establish new Rules 1000C through 1009C that would, in conjunction with current Exchange trading rules, allow listing and trading foreign exchange (also known as “Forex” or “FX”) options on the British Pound, the Swiss Franc, the Canadian Dollar, the Australian Dollar, the New Zealand dollar (“PHLX FOREX Options”). The Exchange is also amending Advices F-6 and F-15 to harmonize Exchange Advices and rules.

The primary difference between current WCOs or FCOs and proposed PHLX FOREX Options will be the pricing convention of PHLX FOREX Options based on the spot market prices for the underlying currencies. The proposed methodology or convention for pricing PHLX FOREX Options⁷ resembles the “spot market pricing” in

⁷ See proposed Rule 1001C.

use for currency futures and options on currency futures contracts⁸ on the same underlying currencies.⁹

Background

The Exchange listed and traded physical delivery FCOs from 1982 through early 2007 through open outcry.¹⁰ In 2004, the Exchange's options trading platform, Phlx XL, was approved for options trading;¹¹ this allowed options on foreign currencies to be traded electronically as well as manually. In January 2007, the Exchange listed and began trading cash-settled FCOs on the British pound and the Euro.¹² In July 2007, the Exchange listed and began trading FCOs on the Australian dollar, Canadian dollar, Swiss

⁸ A currency futures contract is a transferable futures contract that specifies the price at which a currency can be bought or sold at a future expiration date.

⁹ CME Group Inc. ("CME") lists and trades futures and options on futures contracts on many of the PHLX FOREX Options that are proposed to be listed and traded by the Exchange including the Australian dollar, the British pound, the Canadian dollar, and the Euro. Examples of settlement (closing) spot prices of futures contracts on these currencies (e.g. 1.0565 for the Euro) can be found at <ftp://ftp.cmegroup.com/pub/settle/stlcur>.

¹⁰ The last physical delivery FCOs that were listed on the Exchange were traded out or expired by March 2007.

¹¹ See Securities Exchange Act Release No. 49832 (June 8, 2004), 69 FR 33442 (June 15, 2004)(SR-Phlx-2003-59)(approving Phlx XL). See also Release No. 59995 (May 28, 2009) SR-Phlx-2009-32 (approving Phlx XL II, the Exchange's new electronic trading platform).

¹² See Securities Exchange Act Release No. 54989 (December 21, 2006), 71 FR 78506 (December 29, 2006)(SR-Phlx-2006-34). In approving the listing and trading of FCOs on the British pound and the Euro, the approval order stated that the listing and trading of additional FCOs on other foreign currencies will require the Exchange to file additional proposed rule changes on Form 19b-4.

franc, and Japanese yen.¹³ In June 2009, the Exchange received approval to list ten additional FCOs (WCOs) and to change their pricing convention so that it was similar to the pricing convention used for index options by adding multipliers to spot currency prices.¹⁴

The Exchange currently lists eleven FCOs (WCOs).¹⁵ These options trade in the manual auction market as well as electronically.

This proposal allows the Exchange to list and trade PHLX FOREX Options on six of the same foreign currencies that underlie foreign currency options (FCOs or WCOs) that are currently traded on the Exchange, namely the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro. The proposal allows PHLX FOREX Options to be listed and traded in parallel to current FCOs (WCOs) and in a similar manner, by using the proposed PHLX FOREX Option rules in conjunction with existing Exchange rules and processes for foreign currency options (FCOs or WCOs). The proposal does not affect the continued listing and trading

¹³ See Securities Exchange Act Release No. 56034 (July 10, 2007), 72 FR 38853 (July 16, 2007)(SR-Phlx-2007-34).

¹⁴ The ten additional FCOs (WCOs) approved for listing and trading were the Mexican peso, the Brazilian real, the Chinese yuan (also known as the renminbi), the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona. See Securities Exchange Act Release No. 60169 (June 24, 2009), 74 FR 31782 (July 2, 2009)(SR-Phlx-2009-40)(approval order). This filing also deleted all reference to customized FCOs, which had ceased being traded on the Exchange. See also supra note 10.

¹⁵ The currencies underlying these FCOs (WCOs) include: the Australian dollar, the British pound, the Canadian dollar, the Euro, the Japanese yen, the Mexican peso, the New Zealand dollar, the Norwegian krone, the South African rand, the Swedish krona, and the Swiss franc.

of FCOs or WCOs on the Exchange. Moreover, to minimize investor confusion during such time, if any, that PHLX FOREX Options and FCOs (WCOs) are traded on the Exchange in parallel on the same underlying currencies, the Exchange intends to engage in an educational effort to inform potential traders and investors about the differences in the PHLX FOREX Options and FCO (WCO) products.¹⁶

PHLX FOREX Options listed by the Exchange would, like WCOs or FCOs, be cleared by The Options Clearing Corporation ("OCC")¹⁷ and would be European style.¹⁸ Upon exercise, holders of options contracts would receive U.S. dollars representing the difference between the exchange rate and the exercise price of the option,¹⁹ which would be multiplied by the units of currency²⁰ in each PHLX FOREX Option contract. For example, upon exercise of an in-the-money PHLX FOREX Options call option, the

¹⁶ For example, as discussed in the filing the pricing of PHLX FOREX Options and FCOs (WCOs) would be different in that the pricing of a Euro PHLX FOREX Option would resemble spot market pricing (e.g. 1.0031) while the pricing of a Euro FCO (WCO) would resemble index option pricing (e.g. 100.31). And, the pricing symbology would be different in that PHLX FOREX Option prices would be reflected to four decimal places and FCOs (WCOs) prices to two places.

¹⁷ See Securities Exchange Act Release No. 54935 (December 13, 2006), 71 FR 76417 (December 20, 2006)(SR-OCC-2006-10)(proposing to amend OCC's by-laws and rules to accommodate the clearance and settlement of the Exchange's WCOs or FCOs).

¹⁸ Unlike American style options, European style options may be exercised only on the day that they expire.

¹⁹ Proposed Rule 1006C.

²⁰ Each PHLX FOREX Option contract for the six currencies discussed in this filing would, like each WCO or FCO contract, have 10,000 units of currency. The product specifications for the new PHLX FOREX Options may be found at <http://www.nasdaqomxtrader.com/wco>.

holder would receive from OCC U.S. dollars representing the difference between the exercise price and the closing settlement value of the cash-settled option contract multiplied by the units of currency. Upon exercise of an in-the-money PHLX FOREX Options put option, the holder would receive from OCC U.S. dollars representing the excess of the exercise price over the closing settlement value of the cash-settled option contract multiplied by the units of currency. Additionally, PHLX FOREX Options that are in-the-money by any amount on the expiration date would be exercised automatically by OCC, while PHLX FOREX Options that are out-of-the-money on the expiration date would expire worthless.

The Proposal

The changes proposed herein regarding the methodology or convention of pricing PHLX FOREX Options would, as noted, closely resemble the “spot market pricing” that has been in use for decades for futures and options on futures contracts on the currencies that underlie PHLX FOREX Options. The Exchange receives spot market prices for currencies underlying the FCOs (WCOs) from a data vendor, which at this time is SIX Telekurs,²¹ and converts such spot market prices to Exchange Spot Prices by applying an

²¹ SIX Telekurs specializes in the procurement, processing and distribution of international financial information for investment advisory services, fund administration, portfolio management, financial analysis and securities administration. SIX Telekurs collects data directly from hundreds of contributors and exchanges as well as more than thirty (30) worldwide contributing banks. This data is, as discussed, the basis for the foreign currency spot market prices that SIX Telekurs provides to the Exchange. The Exchange notes that spot market prices for currencies underlying PHLX FOREX Options are also calculated by other entities and available to investors from other sources such as market data vendors Bloomberg, Reuters, and Thomson. Investors can also get spot market prices for free from sources such as <http://finance.yahoo.com/> and <http://www.allstocks.com/1bigcharts.htm>; as well as from brokers with whom investors have a trading account.

appropriate multiplier (e.g. 100 or 1000).²² Currently, the closing settlement value for FCO (WCO) settlement purposes is the Exchange Spot Price at 12:00:00 Eastern Time (noon) on the last trading day prior to expiration.²³ The Exchange currently generates a settlement value report for each underlying currency; and publicly disseminates unique FCO (WCO) trading symbols and settlement values in order to differentiate between live underlying markets and 12:00:00 noon FCO (WCO) settlement prices.

For PHLX FOREX Options, however, the Exchange will not use Exchange Spot Prices for settlement (or any other) purpose. Instead, the Exchange will use the spot market prices that it receives from SIX Telekurs or another data vendor at 12:00:00 Eastern Time (noon) on the last trading day prior to expiration to calculate settlement values – but will not apply any multiplier as it does for FCOs (WCOs).²⁴ These PHLX FOREX Option settlement values will be, similarly to FCOs (WCOs), publicly disseminated with unique trading symbols to differentiate between live underlying markets and 12:00:00 Eastern Time (noon) PHLX FOREX Option settlement prices. Except for applying multipliers for FCO (WCO) settlement values, the settlement value methodologies will largely be similar for PHLX FOREX Options and FCOs (WCOs). As an example, the July 2012 settlement value of a PHLX FOREX Option on the Euro may

²² For a definition of Exchange Spot Price, see Rule 1000(b)16. The International Securities Exchange, LLC (“ISE”) similarly applies multipliers to its cash-settled rate-modified currency options (which are not fungible with Phlx’s WCOs or FCOs) so that they tend to look like the prices of index and other options. See Exchange Act Release No. 55575 (April 3, 2007), 72 FR 17963 (April 10, 2007)(SR-ISE-2006-59).

²³ See Rule 1057.

²⁴ Proposed Rule 1006C.

be \$1.4338 based on the spot market price of the underlying currency; whereas the July 2012 settlement value price of a WCO (FCO) on the Euro may be \$143.38 based on the application of a 100 multiplier to the similar spot market price.

PHLX FOREX Options will, as discussed, be similar - and in many respects identical - to FCOs (WCOs) and will trade in a like fashion. As such, in the proposed rules the Exchange initially sets forth the principle that its existing rules and procedures would be applicable to PHLX FOREX Options and the proposed PHLX FOREX Options rules would supplement existing rules. Specifically, new Rule 1000C states that unless otherwise specified, the proposed rules in the Rule 1000C series of rules ("Rule 1000C Series") are applicable only to PHLX FOREX Options. Rule 1000C states that except to the extent that specific rules in the Rule 1000C Series govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to foreign currency options²⁵ and of the By-Laws²⁶ and all other Rules and Policies of the Board of Directors²⁷ are applicable to the trading on the Exchange of PHLX FOREX Options.

Definitions

PHLX FOREX Options are defined in Rule 1001C. Specifically, Subsection (a)(1) states that the term "PHLX FOREX Option" means: (i) a U.S. dollar-settled foreign currency option contract, (ii) on the standard unit of an underlying currency (discussed below) that is the official medium of exchange of a sovereign government including the United States Government (e.g., the British pound, the Swiss franc, the Canadian dollar,

²⁵ Option Rules 1000 et seq. and 1000A et seq.

²⁶ By-Laws Articles I to VII.

²⁷ Rules of the Exchange Rule 1 et seq. and Options Floor Procedure Advices.

the Australian dollar, the New Zealand dollar, or the Euro). This is identical to current WCO or FCO options.²⁸ However, subsection (iii) also states that a PHLX FOREX Option will use the spot market price of the underlying currency for pricing and for settlement. This third characteristic of PHLX FOREX Options represents the crucial difference between PHLX FOREX Options and WCOs or FCOs: the pricing of PHLX FOREX Options (whether intra-day, end of day, or settlement pricing) will be based on the relevant underlying currency and will therefore resemble the spot market pricing of futures on the relevant underlying currency - without application of a multiplier as for WCOs or FCOs. As a result, where the price for Euro PHLX FOREX Options might read 1.4732, the Exchange Spot Market Price for Euro WCOs or FCOs might read 147.32.

The term "unit of underlying foreign currency" in respect of PHLX FOREX Options is defined in subsection (a)(2) of Rule 1001C to mean a single unit of the foreign currency. This is identical to the definition of underlying currency for WCOs or FCOs. Thus, a unit of currency underlying a Euro PHLX FOREX Options or a British Pound PHLX FOREX Options would be one Euro or one British pound, respectively.

Opening and Adding New PHLX FOREX Options

The Exchange proposes Rule 1002C regarding the series of underlying PHLX FOREX Options that may be opened for trading after a particular class of PHLX FOREX Option has been approved for listing and trading on the Exchange. Specifically, the Exchange proposes subsection (a)(i) stating that at the commencement of trading on the Exchange of a particular class of PHLX FOREX Options, the Exchange will open a

²⁸ Rule 1000(b)(13).

minimum of one expiration month and series for each class of options open for trading on the Exchange.²⁹ The exercise price of each series of PHLX FOREX Options opened for trading on the Exchange will be fixed in terms of U.S. dollars per unit of the underlying currency at a price per unit which is reasonably close to the current spot market price of the underlying foreign currency in the foreign exchange market at or before the time such series of options is first opened for trading on the Exchange. This is the same as the procedure for opening initial months and series and fixing expiration terms of equity options and index options on the Exchange, and continues the process of harmonizing exchange rules in the listing area.³⁰

Regarding additional series of options, proposed subsection (a)(ii) to Rule 1002C states that additional series of PHLX FOREX Options of the same class 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 stock moves more than five strike prices from the initial exercise price or prices.³¹

²⁹ The Exchange notes that it currently intends to open two quarterly and two additional near-term months.

³⁰ For recent proposals harmonizing Exchange rule provisions regarding opening and adding equity and index options, see Securities Exchange Act Release Nos. 64741 (June 24, 2011), 76 FR 38444 (June 30, 2011)(SR-Phlx-2011-65)(order approving); 63700 (January 11, 2011), 76 FR 2931(January 18, 2011)(SR-Phlx-2011-04)(notice of filing and immediate effectiveness; and 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008)(SR-NASDAQ-2007-004 and NASDAQ-2007-080)(order approving). The Exchange notes that the opening of FCOs (WCOs) has not yet been harmonized to the one month one series standard.

³¹ Proposed subsection (a)(ii) to Rule 1002C states further: The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual

Regarding long-term options, proposed subsection (a)(iii) states that with respect to any class of PHLX FOREX Options series the Exchange may list options having up to thirty-nine months from the time they are listed until expiration (with up to six additional expiration months). Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.

Pricing of PHLX FOREX Options

Proposed subsection (b) of Rule 1002C states that for each expiration of PHLX FOREX Options, the Exchange may initially list exercise strike prices within a 40 percent band around the current spot market price for an underlying currency for a PHLX FOREX Option (known as the “spot market”). These options could be listed at \$.0050 intervals. As the spot market moves, the Exchange may list new strike prices that, at the time of listing, do not exceed the spot market by more than 20 percent and are not less than the spot market by more than 20 percent (commensurate with the 40 percent band). For example, if at the time of initial listing, the spot market of the Euro is at \$1.000 the strike prices the Exchange would list for the PHLX FOREX Option will be \$.800 to \$1.20 in \$.0050 intervals. If the spot market then moves to \$1.3050, the Exchange may list additional strikes at the following prices in \$.0050 intervals: \$1.045 to \$1.565. The spot market pricing convention is reflected in other proposed rules.

The quote spread parameters (or bid/ask differentials) with respect to PHLX FOREX Options are noted in subsection (a) of Rule 1003C, which is applicable to PHLX FOREX Options specialists and Registered Options Traders (“ROTs”). In subsection (a),

market conditions, the Exchange, in its discretion, may add a new series of PHLX FOREX Options until five (5) business days prior to expiration.

the Exchange proposes to use the spot market price convention but move the decimal point two places to the right so that a bid and/or offer differential of \$.0025 would be “expressed as” \$.25 for trading purposes.³² Regarding electronic quotations, the Exchange proposes to state in subsection (b) to Rule 1003C that PHLX FOREX Options may be quoted electronically with a difference not to exceed \$.0500 (expressed as \$5.00) between the bid and offer regardless of the price of the bid.³³ The Exchange believes that because such proposed “expressed as” price demarcations are similar to how prices are now expressed for equity options, it would be easier for PHLX FOREX Options participants to use the expressed as pricing for trading purposes.³⁴ “Expressed as” pricing is used in several other proposed PHLX FOREX Option rules.

³² Proposed subsection (a) to Rule 1003C states in full: With respect to all PHLX FOREX Options, bidding and/or offering so as to create differences of no more than \$.0025 (expressed as \$.25) between the bid and the offer for each option contract for which the prevailing bid is less than \$.0200 (expressed as \$2.00); no more than \$.0040 (expressed as \$.40) where the prevailing bid is \$.0200 (expressed as \$2.00) or more but less than \$.0500 (expressed as \$5.00); no more than \$.0050 (expressed as \$.50) where the prevailing bid is \$.0500 (expressed as \$5.00) or more but less than \$.1000 (expressed as \$10.00); no more than \$.0080 (expressed as \$.80) where the prevailing bid is \$.1000 (expressed as \$10.00) or more but less than \$.2000 (expressed as \$20.00); and no more than \$.0100 (expressed as \$1.00) where the prevailing bid is \$.2000 (expressed as \$20.00). Proposed OFPA F-6 is similar.

³³ Proposed subsection (b) to Rule 1003C states further: The bid/ask differentials set forth in this subparagraph (b) only applies to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (a) above shall apply during opening rotation). Quotations provided in open outcry may not be made with bid/ask differentials set forth in this subparagraph (b) and instead must comply with the legal bid/ask differential requirements described in sub-paragraph (a) above and not in this subparagraph (b).

³⁴ As an example, it would be unwieldy for a trader in a crowd to have to announce that he is improving a price by .0010 (one tenth of a penny). The “expressed as”

Proposed Rule 1004C regarding bids and offers of PHLX FOREX Options states that except as provided in paragraph (b) and (c) of that Rule (contract adjustments and spread type priority),³⁵ all bids or offers made on the Exchange floor for PHLX FOREX Option contracts shall be expressed in terms of U.S. dollars per unit of the underlying foreign currency. The example given in the rule is that a bid of “.0325” (which would be expressed as "3.25") for a premium on a \$1.70 strike price option on the British pound would represent a bid to pay \$325 per option contract.

The minimum trading increment for PHLX FOREX Options is set forth in proposed Rule 1005C. Subsection (a) states that all PHLX FOREX Options where the underlying foreign currency is not the U.S. dollar (unless a PHLX FOREX Options pair) shall have a minimum increment of \$.0001 but will be expressed for trading as \$.01. Subsection (b) adds that different, higher, minimum increments may, however, be fixed

price would allow the trader to announce that he is improving the price by ten cents or a dime.

³⁵ Proposed Rule 1004C subsection (b) states: All bids or offers for an option contract for which the Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the by-laws of the Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading.

Proposed Rule 1004C subsection (c) states: When a member holding a hedge order, as defined in Rule 1066 and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a hedge order at the total credit or debit with one other member with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit, provided that, the member executes at least one option leg at a better price than established bid or offer for that option contract AND no option leg is executed at a price outside of the established bid or offer for that option contract.

by the Exchange for option contracts of a particular series of PHLX FOREX Options. This information will be posted on the Exchange's web site.

Position and Exercise Limits for PHLX FOREX Options

Proposed Rule 1008C establishes that the new PHLX FOREX Options, namely the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro, will each have a position limit of 1,200,000 contracts. The proposed position limit for PHLX FOREX Options is identical to the current position limit for FCOs (WCOs) on Euros. The Exchange believes that it is proper to keep the proposed position limit at 1.2 million contracts for each such FX Option overlying a major foreign currency,³⁶ as this would further the goal of eliminating investor confusion by standardizing proposed PHLX FOREX Options. The proposed rule also establishes that if a PHLX FOREX Option and an FCO (WCO) are listed on the same underlying currency (e.g. a Euro PHLX FOREX Option and a Euro FCO (WCO)), then the position for each such option on the same underlying currency will be aggregated for purposes of determining compliance with the position limit established in this rule.

Historically, position and exercise limits have served as a regulatory tool designed to address manipulative schemes and adverse market impact surrounding the use of options. Since the inception of standardized options trading, the options exchanges have

³⁶ The six major foreign currencies that underlie PHLX FOREX Options are all within the top ten most traded foreign currencies in the world, and represent a 72.9% share of the daily market turnover (excluding U.S. dollars). Moreover, these underlying foreign currencies are very liquid, such that in 2010 the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro had an average daily volume, in billions of U.S. dollars, of 360, 168, 182, 249, 4, and 1,101, respectively. Source: Bank for International Settlements (BIS) Triennial Central Bank Survey, Report on Global Foreign Exchange Market Activity in 2010.

had rules limiting the aggregate number of options contracts that a member or customer may hold or exercise. Thus, position and exercise limits have been established for FCOs (WCOs) trading on the Exchange;³⁷ and a 1.2 million contract position and exercise limit has, in particular, been successfully used for trading Euro FCOs (WCOs).³⁸

Position limit rules have also, where needed, historically included aggregation of positions among certain products. These include, as an example, options on lower-volume proprietary indexes and the components of such indexes, and full value and reduced value indexes.³⁹ Aggregation would be applied in such circumstances because of the potential ability to influence price by amassing large positions in such proprietary lower-volume or clearly related products.

The products underlying PHLX FOREX Options, namely foreign currencies, are traded on the global foreign exchange (FX) market that is considered to be one of the largest, most liquid financial markets in the world, with a \$4.0 trillion average daily turnover in 2010.⁴⁰ The huge foreign exchange trading volume represents the largest

³⁷ Rule 1001 and 1002. These rules also establish limits for equity and ETF options.

³⁸ See Securities Exchange Act Release No. 60169 (June 24, 2009), 74 FR 31789 (July 2, 2009)(SR-Phlx-2009-40)(order approving). Position limits for non-Euro foreign currency options are 600,000 contracts. See also Securities Exchange Act Release No. 64695 (June 17, 2011), 76 FR 36942 (June 23, 2011)(SR-Phlx-2011-58)(order approving position limit increase for options on Standard and Poor's(R) Depositary Receipts (SPDRs(R))).

³⁹ See Rules 1001A subsection (f) (regarding proprietary Alpha Index aggregation) and subsection (e) (regarding full and reduced-value index aggregation).

⁴⁰ It has been observed that the average daily turnover of the FX market is equivalent to: more than 12 times the average daily turnover of global equity markets (about \$320 billion - World Federation of Exchanges aggregate 2009); more than 50 times the average daily turnover of the NYSE (about \$70 billion - World Federation of Exchanges 2009); more than \$500 a day for every man,

asset class in the world and the highest liquidity among investment vehicles.

Notwithstanding, based on informal communications with Commission staff, wherein staff expressed a general preference for aggregation, in Rule 1008C the Exchange is proposing aggregation for PHLX FOREX Options and FCOs (WCOs) that are listed on the same underlying currency. For purposes of conformity, in Commentary .05 of Rule 1001 the Exchange is proposing similar aggregation language in respect of foreign currency options (FCOs or WCOs).

Finally, the Exchange notes that the six current FCOs (WCOs) that are based on the currencies that would also underlie PHLX FOREX Options have not experienced problems attributable to position limits.

Proposed Rule 1009C establishes that the exercise limits for options on PHLX FOREX Options will be equivalent to the position limits prescribed in Rule 1008C.

Closing Settlement Value of PHLX FOREX Options

PHLX FOREX Options will use a closing settlement value methodology that is identical to what is currently being used for FCOs (WCOs) with one distinction. Calculating settlement value for PHLX FOREX Options will use the spot market price, whereas WCOs or FCOs currently use the Exchange Spot Price. This is set forth in proposed Rule 1006C, which states that the closing settlement value for PHLX FOREX Options and for FLEX PHLX FOREX Options on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, and the New Zealand dollar shall be

woman, and child on earth (based on world population of 6.9 billion - US Census Bureau); and an annual turnover more than 10 times world GDP (about \$58 trillion - World Bank 2009). Source: Bank for International Settlements (BIS) Triennial Central Bank Survey 2010.

the spot market price at 12:00:00 Eastern Time (noon) on the last trading day prior to expiration unless the Exchange determines to apply an alternative closing settlement value as a result of extraordinary circumstances.⁴¹ The rule states that, like with WCOs and FCOs, PHLX FOREX Options will be settled in U.S. dollars per unit of underlying currency; and that the Exchange will disseminate the closing settlement value through one or more major market data vendors. The rule also indicates that the disclaimer of liability that is applicable to WCOs and FCOs is likewise applicable to PHLX FOREX Options.⁴² The Exchange will disseminate PHLX FOREX Option closing settlement values on its website.

FLEX - PHLX FOREX Options

Rule 1079 deals with the process of listing and trading FLEX equity, index, and foreign currency options (WCOs and FCOs) on the Exchange. The rule states that FLEX options are available for foreign currency options (FCOs and WCOs) and discusses, among other things: opening FLEX options trading through the Request-for-Quote (“RFQ”) process; quotes responsive to RFQs; trading parameters and procedures; and

⁴¹ The expiration date for PHLX FOREX Options would be the Saturday following the third Friday of the expiration month, and the last trading day would be the third Friday of the expiration month. This is similar to WCOs or FCOs.

⁴² The disclaimer of liability in proposed Rule 1006C states: Neither the Exchange, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current settlement value or the closing settlement value resulting from an act, condition, or cause beyond the reasonable control of the Exchange including but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission, or delay in the reports of transactions in one or more underlying currencies or any error, omission or delay in the reports of the current settlement value or the closing settlement value by the Exchange.

position and exercise limits for FLEX options. The Exchange is adding proposed Rule 1007C stating that the FLEX procedures set forth in Rule 1079 in respect of foreign currency options will also be applicable to PHLX FOREX Options.

Systems Capacity and Surveillance

The Exchange represents that it has the necessary systems capacity to support new options series that will result from the introduction of PHLX FOREX Options on the Exchange. The Exchange represents that it has an adequate surveillance program in place for trading WCOs or FCOs. The Exchange will apply the same surveillance program to PHLX FOREX Options that it uses for WCOs or FCOs.⁴³ Therefore, the Exchange represents that it has adequate surveillance for PHLX FOREX Options.

Applicability of Rules for Foreign Currency Options

As noted, proposed Rule 1000C establishes the principal that except to the extent that specific rules in the Rule 1000C Series govern, or unless the context otherwise requires, the provisions of Exchange Option Rules applicable to foreign currency options (WCOs or FCOs), Exchange By-Laws, and Rules and Policies of the Board of Directors are applicable to the trading on the Exchange of PHLX FOREX Options.⁴⁴ An example

⁴³ The Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, which was modernized in 2008, and may obtain trading information via the ISG from other exchanges who are members or affiliates of the ISG. The members of the ISG include all of the U.S. registered stock and options markets. The ISG members work together to coordinate surveillance and investigative information sharing in the stock and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses.

⁴⁴ Proposed Rule 1000C is modeled on, and essentially the same as, current Rule 1000A. This is the primary rule in the Exchange's 1000A Series of rules for index options, and has continuously been in use for more than twenty-five years.

of the applicability of an exchange trading rule is Rule 1014, which, among other things, generally discusses obligations and quote spread parameters applicable to foreign currency option and other types of specialists and ROTs. Proposed Rule 1003C supplements Rule 1014 by stating that with respect to classes of option contracts to which a specialist or ROT assignment extends, a specialist and an ROT, whenever the ROT (except a Remote Streaming Quote Trader or RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker⁴⁵ to make a market, the specialist and ROT should exhibit certain behavior. In particular the rule states that the assigned specialist and ROT is expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.

PHLX FOREX Options will follow the rules, some of which are supplemented by this filing, that are currently applicable to foreign currency options (WCOs or FCOs).⁴⁶

See Securities Exchange Act Release No. 20437 (December 2, 1983), 48 FR 55229 (December 9, 1983)(SR-Phlx-83-17)(order approving the 1000A Series of rules). Other securities markets use an analogous approach. See, for example, CBOE Chapter XXVIII (regarding corporate debt securities); ISE Rule 2131 (regarding portfolio depository receipts); BATS BZX Exchange Rule 14.11 (regarding managed fund shares); NASDAQ Rule 2841 (regarding warrants); and NOM Rule 2 (regarding rules on NASDAQ Options Market).

⁴⁵ For definitions of specialist, RSQT, Options Exchange Official, and Floor Broker, see Rules 1020, 1014(b)(ii)(B), 1(w) and 1060, respectively.

⁴⁶ See proposed Rule 1000C and *infra* note 45.

These include rules that pertain to areas such as, for example, hours of trading, quoting and market making requirements, margin requirements, reporting options positions, filing trade information, and FLEX trading.⁴⁷

Option Floor Procedure Advices

The Exchange proposes to amend Advice F-6 to reflect “expressed as” pricing for maximum quotes spread parameters in light of bid and ask differentials. This is done to harmonize Advice F-6 with its corresponding proposed rule 1003C, so that the same pricing is reflected in the rule and the Advice.

The Exchange also proposes to amend Advice F-15, which discusses minor infractions of position/exercise limits and hedge exemptions, to reflect the addition of proposed Rules 1008C and 1009C. This is done to harmonize Advice F-15 with its corresponding proposed Rules 1008C and 1009C, and thereby include minor violations of the proposed rules in the Exchange’s Minor Rule Plan as reflected in the Advices.

⁴⁷ Rules 101, 1014, 721, 1003, 1053, and 1079, respectively. Other Exchange rules that are applicable to the trading of foreign currency options products include Rules 1006 (Other Restrictions on Exchange Options Transactions and Exercises); 1014 (Obligations and Restrictions Applicable to Specialists and Registered Options Traders); 1022 (Securities Accounts and Orders of Specialists and Registered Options Traders); 1024 (Conduct of Accounts for Options Trading); 1025 (Supervision of Accounts); 1027 (Discretionary Accounts); 1028 (Confirmations); 1039 (Resolution Of Uncompared Trade); 1043 (Allocation of Exercise Notices); 1044 (Delivery and Payment); 1045 (Officers And Employees Restricted); 1047 (Trading Rotations, Halts and Suspensions); 1049 (Communications to Customers); 1063 (Responsibilities of Floor Brokers); 1064 (Crossing, Facilitation and Solicited Orders); 1066 (Certain Types of Orders Defined); 1068 (Execution of Multi-Part Orders); 1080 (Phlx XL and Phlx XL II); 1083 (Order Protection; Locked and Crossed Markets); 1089 (Dealing Directly With Specialist and Registered Option Trader in Foreign Currency Options); and 1092 (Obvious Errors and Catastrophic Errors).

Conclusion

The Exchange believes that PHLX FOREX Options using a pricing structure that is similar to that of underlying currencies in the interbank currency market represent a leveraged derivative instrument that, from a competitive perspective, provides a familiarly-priced leveraged currency product on a regulated listed options market. PHLX FOREX Options should increase product competition, encourage trading, and provide additional investment and hedging opportunities for traders, market participants, and investors (to include retail and public investors).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁴⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act⁴⁹ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The proposal should minimize or eliminate investor confusion by aligning the pricing and trading of PHLX FOREX Options to established methodologies. PHLX FOREX Options would use a pricing structure that is similar to the pricing structure that has been used in the interbank currency market for decades for currencies that underlie PHLX FOREX Options (as well as for other currencies). Traders of PHLX FOREX

⁴⁸ 15 U.S.C. 78f(b).

⁴⁹ 15 U.S.C. 78f(b)(5).

Options would have the ability, however, to express prices of such options for trading purposes in a familiar style that is used for trading other options on the Exchange.⁵⁰

At the same time, PHLX FOREX Options would be largely similar in structure to foreign currency options listed on the Exchange (FCOs or WCOs), and would trade in a like manner. The process for trading PHLX FOREX Options will be similar to the process that has been used for years, and continues being used, on the Exchange for trading foreign currency options (FCOs and WCOs).⁵¹ The current foreign currency options trading process will be enhanced by the Rule 1000C Series of proposed PHLX FOREX Options rules,⁵² which will supplement existing trading rules.

In addition, the Exchange will discuss the proposal in an OTA. In particular, the Exchange intends to educate members about the structure and trading procedure for PHLX FOREX Options as one of two foreign currency products that may be traded in parallel on the Exchange with the approval of this proposal. The Exchange believes that this will serve to minimize investor confusion while promoting investor protection.

The Exchange believes that the proposed PHLX FOREX Options will offer market participants a leveraged derivative foreign currency product that, from a competitive perspective, should increase product competition, encourage trading, and provide additional investment and hedging opportunities for traders, market participants, and investors.

⁵⁰ As an example, instead of a trader having to indicate that he is improving the price of a Euro PHLX FOREX Option by .0010 (one tenth of a penny), the trader would express that he is improving the price by ten cents or a dime. See also supra note 34.

⁵¹ For applicable FCO (WCO) trading rules, see supra note 47.

⁵² Proposed Rules 1000C through 1009C.

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 not necessary or appropriate in furtherance of the purposes of the Act.

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

The Exchange requests accelerated effectiveness pursuant to Section 19(b)(2) of the Act⁵³ so that, for competitive purposes, the Exchange may provide traders and investors interested in options on foreign currencies the largest breadth of products as soon as possible. PHLX FOREX Options should increase product competition, encourage trading, and provide additional investment and hedging opportunities for traders, market participants, and investors (to include retail and public investors).

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

⁵³ 15 U.S.C. 78s(b)(2).

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. Please include File Number SR-Phlx-2012-11 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2012-11. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 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-Phlx-2012-11 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.⁵⁴

Kevin M O'Neill
Deputy Secretary

⁵⁴ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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

Phlx Option Rules

* * * * *

Rule 1001. Position Limits

No Change.

••• *Commentary:* -----

.01 - .04 No Change.

.05

(a) – (b) No Change.

(c) *Foreign Currency Option Position Limits*

(i) The position limit shall be 300,000 contracts for options on the following foreign currency: the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, the Swedish krona,

(ii) The position limit shall be 600,000 contracts for options on the following foreign currency: the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, and the New Zealand dollar

(iii) The position limit shall be 1,200,000 contracts for options on the following foreign currency: the Euro.

(iv) However, if a foreign currency option (FCO or WCO) and a PHLX FOREX OptionTM are listed on the same underlying currency (e.g. a Euro foreign currency option and a Euro PHLX FOREX Option), then the position for each such option on the same underlying currency will be aggregated for purposes of determining compliance with the position limit established in this rule.

.06 – .10 No Change.

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Rules Applicable to Trading of PHLX FOREX Options™ (Rules 1000C - 1009C)**Rule 1000C. Applicability of Rule 1000C Series – PHLX FOREX Options™**

Unless otherwise specified, the Rules in this Rule 1000C Series are applicable only to PHLX FOREX Options (as defined below). In addition, except to the extent that specific rules in this Series govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to U.S. dollar-settled foreign currency options and of the By-Laws and all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of PHLX FOREX Options.

Rule 1001C. Definitions – PHLX FOREX Options™

(a) The following terms as used in the Rules in this Section shall, unless the context otherwise indicates, have the meanings herein specified regarding PHLX FOREX Options.

(1) *PHLX FOREX Option* - The term "PHLX FOREX Option" means:

(i) a U.S. dollar-settled foreign currency option contract,

(ii) on the standard unit of an underlying currency that is the official medium of exchange of a sovereign government including the United States Government (e.g., the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar,) or the Euro, and

(iii) that uses the spot market price of the underlying currency for pricing and settlement.

(2) *Unit of Underlying Foreign Currency*—The term "unit of underlying foreign currency" in respect of PHLX FOREX Options means a single unit of the foreign currency (e.g., one British pound, one Swiss franc, one Canadian dollar, one Australian dollar, one Euro, or one New Zealand dollar).

Rule 1002C. Series of PHLX FOREX Options™ Open for Trading

(a) After a particular class of PHLX FOREX Options (call option contracts or put option contracts relating to a specific underlying foreign currency) has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series as follows:

(i) At the commencement of trading on the Exchange of a particular class of PHLX FOREX Options, the Exchange shall open a minimum of one expiration month and series for each class of options open for trading on the Exchange.

The exercise price of each series of PHLX FOREX Options opened for trading on the Exchange shall be fixed in terms of U.S. dollars per unit of the underlying currency at a

price per unit which is reasonably close to the current spot market price of the underlying foreign currency in the foreign exchange market at or before the time such series of options is first opened for trading on the Exchange.

(ii) Additional series of PHLX FOREX Options of the same class 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 stock moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add a new series of PHLX FOREX Options until five (5) business days prior to expiration.

(iii) The Exchange may list, with respect to any class of PHLX FOREX Options series, options having up to thirty-nine months from the time they are listed until expiration. There may be up to six additional expiration months. Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.

(b) For each expiration of PHLX FOREX Options, the Exchange may initially list exercise strike prices within a 40 percent band around the current spot market price for an underlying currency for a PHLX FOREX Option (the "spot market") at \$.0050 intervals. As the spot market moves, the Exchange may list new strike prices that, at the time of listing, do not exceed the spot market by more than 20 percent and are not less than the spot market by more than 20 percent.

For example, if at the time of initial listing, the spot market of the Euro is at \$1.000, the strike prices the Exchange will list for the PHLX FOREX Option will be \$.800 to \$1.20. If the spot market then moves to \$1.3050, the Exchange may list additional strikes at the following prices: \$1.045 to \$1.565.

Rule 1003C. Obligations and Quote Spread Parameters Applicable to PHLX FOREX OptionsTM Specialists and Registered Options Traders

Affirmative Obligations In Classes of PHLX FOREX Options Contracts to Which Assigned. With respect to classes of option contracts to which a Specialist or Registered Option Trader (ROT) assignment extends, a Specialist and an ROT, whenever the ROT (except a Remote Streaming Quote Trader or RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker, to make a market, is expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:

(a) Quote Spread Parameters (Bid/Ask Differentials).

With respect to all PHLX FOREX Options, bidding and/or offering so as to create differences of no more than \$.0025 (expressed as \$.25) between the bid and the offer for each option contract for which the prevailing bid is less than \$.0200 (expressed as \$2.00); no more than \$.0040 (expressed as \$.40) where the prevailing bid is \$.0200 (expressed as \$2.00) or more but less than \$.0500 (expressed as \$5.00); no more than \$.0050 (expressed as \$.50) where the prevailing bid is \$.0500 (expressed as \$5.00) or more but less than \$.1000 (expressed as \$10.00); no more than \$.0080 (expressed as \$.80) where the prevailing bid is \$.1000 (expressed as \$10.00) or more but less than \$.2000 (expressed as \$20.00); and no more than \$.0100 (expressed as \$1.00) where the prevailing bid is \$.2000 (expressed as \$20.00).

(b) Electronic Quotations.

PHLX FOREX Options may be quoted electronically with a difference not to exceed \$.0500 (expressed as \$5.00) between the bid and offer regardless of the price of the bid. The bid/ask differentials set forth in this subparagraph (b) only applies to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in subparagraph (a) above shall apply during opening rotation). Quotations provided in open outcry may not be made with bid/ask differentials set forth in this subparagraph (b) and instead must comply with the legal bid/ask differential requirements described in subparagraph (a) above and not in this sub-paragraph (b).

Rule 1004C. Bids And Offers of PHLX FOREX Options™

(a) Premiums. Except as provided in paragraph (b) and (c), all bids or offers made on the Floor for PHLX FOREX Option contracts shall be expressed in terms of U.S. dollars per unit of the underlying foreign currency.

For example, a bid of “.0325” (expressed as "3.25") for a premium on a \$1.70 strike price option on the British pound shall represent a bid to pay \$325 per option contract.

(b) Contract Adjustments. All bids or offers for an option contract for which the Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the by-laws of the Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading

(c) Spread Type Priority. When a member holding a hedge order, as defined in Rule 1066 and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a hedge order at the total credit or debit with one other member with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit,

provided that, the member executes at least one option leg at a better price than established bid or offer for that option contract AND no option leg is executed at a price outside of the established bid or offer for that option contract.

Rule 1005C. Minimum Increments of PHLX FOREX Options™

(a) All PHLX FOREX Options where the underlying foreign currency is not the U.S. dollar (unless a PHLX FOREX Options pair) shall have a minimum increment of \$.0001 (which is expressed for trading as \$.01).

(b) However, different minimum increments for dealings in PHLX FOREX Option contracts may also be fixed by the Exchange from time to time for option contracts of a particular series.

Rule 1006C. Closing Settlement Value of PHLX FOREX Options™

U.S. dollar-settled foreign currency options are settled in U.S. dollars per unit of underlying currency.

(a) The closing settlement value for PHLX FOREX Options and for FLEX PHLX FOREX Options on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, and the New Zealand dollar shall be the spot market price at 12:00:00 Eastern Time (noon) on the last trading day prior to expiration unless the Exchange determines to apply an alternative closing settlement value as a result of extraordinary circumstances.

(b) The Exchange shall disseminate the closing settlement value via an Options Trader Alert and such Options Trader Alert will also be made available on the Exchange's website.

(c) Neither the Exchange, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current settlement value or the closing settlement value resulting from an act, condition, or cause beyond the reasonable control of the Exchange including but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission, or delay in the reports of transactions in one or more underlying currencies or any error, omission or delay in the reports of the current settlement value or the closing settlement value by the Exchange.

Rule 1007C FLEX - PHLX FOREX Options™

The FLEX procedures set forth in Rule 1079 in respect of U.S. foreign currency options shall be applicable to PHLX FOREX Options.

Rule 1008C Position Limits – PHLX FOREX Options™

The position limit shall be 1,200,000 contracts for PHLX FOREX Options on the following underlying currency: the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the New Zealand dollar, and the Euro. However, if a PHLX FOREX Option and an FCO (WCO) are listed on the same underlying currency (e.g. a Euro PHLX FOREX Option and a Euro FCO (WCO)), then the position for each such option on the same underlying currency will be aggregated for purposes of determining compliance with the position limit established in this rule.

Rule 1009C. Exercise Limits – PHLX FOREX Options™

Exercise limits for options on PHLX FOREX Options shall be equivalent to the position limits prescribed in Rule 1008C.

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Phlx Option Floor Broker Advices

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F-6 Option Quote Parameters

No Change.

Foreign Currency Options

When bidding and/or offering in U.S. dollar-settled foreign currency option issues, the following parameters should be utilized (i) on the opening and (ii) after the opening for those quoting verbally (in open outcry):

<i>Current Option Bid</i>	<i>Maximum Quote Spread</i>
Less than \$2.00	.25
\$2.00 to less than \$5.00	.40
\$5.00 to less than \$10.00	.50
\$10.00 to less than \$20.00	.80
\$20.00 and greater	1

After the opening, options trading on Phlx XL II may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening). Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the bid/ask differential requirements described above.

The bid/ask differential as stated above shall apply to all listed series, including the longest term, except for the two longest term series open for trading in the Euro options and long-term foreign currency options.

PHLX FOREX Options™

When bidding and/or offering in PHLX FOREX Options on issues, the following parameters should be utilized (i) on the opening and (ii) after the opening for those quoting verbally (in open outcry):

<i><u>Current Option Bid</u></i>	<i><u>Maximum Quote Spread</u></i>
<u>Less than \$.0200 (expressed as \$2.00)</u>	<u>.0025 (expressed as .25)</u>
<u>\$.0200 (expressed as \$2.00) to less than \$.0500 (expressed as \$5.00)</u>	<u>.0040 (expressed as .40)</u>
<u>\$.0500 (expressed as \$5.00) to less than \$.1000 (expressed as \$10.00)</u>	<u>.0050 (expressed as .50)</u>

\$.1000 (expressed as \$10.00) to less than \$.2000
(expressed as \$20.00)

.0080 (expressed as .80)

\$.2000 (expressed as \$20.00) and greater

.0100 (expressed as 1)

After the opening, options trading on Phlx XL II may be quoted electronically with a difference not to exceed \$.0500 (expressed as \$5) between the bid and offer regardless of the price of the bid. The \$.0500 (expressed as \$5) bid/ask differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening). Quotations provided in open outcry may not be made with \$.0500 (expressed as \$5) bid/ask differentials and instead must comply with the bid/ask differential requirements described above.

The bid/ask differential as stated above shall apply to all listed series, including the longest term, except for the two longest term series open for trading in the Euro PHLX FOREX OptionsTM and long-term PHLX FOREX Options.

No Change.

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F-15 Minor Infractions of Position/Exercise Limits and Hedge Exemptions

(a) Minor violations of the Exchange's position and exercise limits (Exchange Rule 1001 - Position Limits, Exchange Rule 1002 - Exercise Limits, Exchange Rule 1001A - Position Limits, [and]Exchange Rule 1002A - Exercise Limits, Exchange Rule 1008C - Position Limits PHLX FOREX OptionsTM, and Exchange Rule 1009C - Exercise Limits PHLX FOREX Options) which do not exceed such limits by more than 5% may result in the issuance of a fine in accordance with section (a) of the fine schedule below.

In addition, when a position limit exemption for a specific period has lapsed without the position either being brought into compliance or a new exemption granted, a fine in accordance with section (a) of the fine schedule below may be issued.

Other violations of the position and exercise limit are subject to review by the Business Conduct Committee in accordance with those procedures set forth under the Exchange's Disciplinary Rules.

(b) No Change.

FINE SCHEDULE

No Change.

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