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–NYSEArca–2012–82 and should be submitted on or before September 13, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[32]

**Elizabeth M. Murphy,**

*Secretary.*

[FR Doc. 2012–20713 Filed 8–22–12; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–67683; File No. SR–Phlx–2012–105]**

## Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change Regarding Treasury Securities Options

August 17, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on August 7, 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 the Substance of the Proposed Rule Change

The Exchange is filing with the Securities and Exchange Commission (''Commission'') a proposal to implement twenty-five new rules in the 1000D Series of rules so that the Exchange may list options on Treasury securities[3] and allow trading thereon.[4]

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of this filing is to implement Exchange Rules 1000D through 1025D (the ''1000D Series''), which would, in conjunction with current applicable Exchange rules and procedures, allow the Exchange to list options on Treasury securities (''Treasury securities options''). The Exchange could then allow trading on Treasury securities options.

Background

Treasury securities are direct debt obligations issued by the U.S. government that are used by the government to raise capital and/or make payments on outstanding debt and by traders and investors, both in the underlying form and as derivatives proposed by this filing, as trading, investing, and hedging vehicles. Since Treasury securities are backed by the full faith and credit of the U.S. government, they are generally considered to have low risk and typically carry lower yields than other debt securities. Marketable Treasury securities are initially sold in a scheduled auction process and thereafter trade in a secondary market that is recognized as among the most liquid and extensively reported in the world.

The Exchange believes that the prices of Treasury securities are widely disseminated, active, and visible to traders and investors. In addition, the Exchange intends to get real-time Treasury prices (data) from a market data provider so that it can use this data in support of the Exchange's market, regulatory and surveillance operations. The Exchange intends to use this data for the purpose of opening and determining settlement values for Treasury options. Thirty days prior to the start of trading the Exchange would make an announcement, via an Options Trader Alert (''OTA''), to its member organizations regarding the details of the proposed real-time Treasury price offering.[5]

The secondary market for Treasury securities is an over-the counter (''OTC'') market in which participants trade with one another on a bilateral basis rather than on an organized exchange (Treasury securities can trade at the New York Stock Exchange, but trading in that market is negligible). Trading activity takes place between primary dealers; non-primary dealers; and customers of these dealers, including financial institutions, nonfinancial institutions, and individuals. There are a variety of databases providing bond information, including information regarding the listing and/or trading location of a bond, such as, for example, Govpx, Standard

[32] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] Subsection (a)(1) of proposed Rule 1001D states that the term ''Treasury securities'' (also known as Treasury debt securities) means a bond or note or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal or interest by, the United States or a corporation in which the United States has a direct or indirect interest (except debt securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association). Securities issued or guaranteed by individual departments or agencies of the United States are sometimes referred to by the title of the department or agency involved (e.g. a ''Treasury security'' is a debt instrument that is issued by the United States Treasury).

[4] Exchange listing and trading rules are organized as noted. Generally, rules applicable to equity and currency options can currently be found at Rule 1000 *et seq.;* rules applicable to index options can be found at Rule 1000A *et seq.;* rules applicable to cash index participations can be found at Rule 1000B *et seq.;* and rules applicable to PHLX Forex Options can be found at Rule 1000C *et seq.* Rules applicable to Treasury security options are being proposed at Rule 1000D *et seq.*

[5] On the basis of the real-time Treasury data that the Exchange is able to get, it is considering offering an alternative Treasury data feed to those Exchange members that may desire to acquire such data from the Exchange. As the Exchange notes in the proposal, however, Treasury data is readily available to the investing public from numerous sources including broker dealers. Based on a review of many broker/dealers offering Treasury securities to their customers, the Exchange believes that broker dealers typically do not offer new options classes to customers for trading unless these brokers have an ability to provide transparent, real-time prices for the underlying in addition to options chains.

& Poor's Bond Guide, the Mergent Bond Record, First Data Services' BORAS, Bloomberg, and the Commission's EDGAR internet service.[6] Whereas options on Treasury securities will be cleared by The Options Clearing Corporation (''OCC'') as discussed, the underlying securities will be cleared at the National Securities Clearing Corporation (''NSCC'') or the Fixed Income Clearing Corporation (''FICC''), as applicable.

This filing would allow the Exchange, as permissible by rule on other options exchanges,[7] to list and trade standardized options [8] on two specific types of marketable on-the-run Treasury securities issued by the Treasury: notes and bonds.[9] These options overlie individual underlying Treasury securities. Such options having a specifically identified underlying Treasury security will be known as ''specific cusip options.'' Similarly to equity and index options, these would be required to be delivered upon exercise.[10]

The Exchange specifically limits its proposal to listing options on on-the-run Treasury securities.[11] Because on-the-run (as opposed to off-the-run) Treasury securities are most recently issued U.S. Treasury bonds or notes and are most frequently traded securities of a maturity, they are extremely liquid and afford excellent price discovery.[12] Being the most liquid, on-the-run Treasury securities typically are a little bit more expensive and yield less than their off-the-run counterparts; when market commentators quote price or yield of Treasury securities, they generally refer to on-the-run Treasury securities.[13] As we have discussed, the prices of Treasury securities, particularly those that are on-the-run, are readily quoted and offered by numerous public sources and broker dealers; and, the prices are also available from exchanges that trade derivatives on Treasuries.[14]

The secondary Treasury securities market that would underlie the proposed Treasury options is clearly one of the biggest, most liquid securities markets in the world. This is indisputable and supported by the huge trading volumes of Treasury securities, as discussed below. In their 2012 study, Pasquariello, Roush, and Vega, state regarding their study of the secondary market for U.S. Treasury notes and bonds: ''The secondary market for these securities is among the largest, most liquid financial markets * * * [a]verage trading volumes are high and quoted bid-ask spreads are small * * *'' We note the highly liquid nature of the Treasury securities market is similar to the highly liquid nature of the foreign exchange market, where the Commission recently approved the listing of options on foreign exchange (''forex'') currencies (''PHLX FOREX options'').[15] In 2010 and 2011, for example, according to SIFMA, the average daily trading volume (notional value) of Treasury securities traded by primary dealers was $528.2 Billion and $576.8 Billion respectively, and in 2010, according to the BIS Triennial Survey, the average daily turnover (notional value) of the forex market was $4.0 Trillion.[16] The Exchange strongly believes that just as the Commission approved options overlying the very liquid forex market, so it should approve proposed options overlying the correspondingly liquid Treasury market.

The Exchange believes that the ability to trade standardized options overlying Treasury securities as proposed in this filing would serve an important economic function. In particular, such options could be used by a wide range of investors and traders that may be sensitive to, among other things, the potential price risk of alternative underlying securities and interest rate changes. Through the use of various option purchasing, writing (selling), and combination strategies, investors and

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[6] The prices of Treasury Securities are widely disseminated, active and visible. There is a high level of price transparency for Treasury securities because of extensive price dissemination to the investing public (e.g. commercial and investment banks, insurance companies, pension funds, mutual funds, and retail investors) of price information by information vendors. These information vendors include an industry-sponsored corporation, Govpx, that disseminates price and real-time trading volume information for Treasury securities via interdealer broker screens.

Moreover, retail brokers (e.g. Fidelity, TD Ameritrade, E*TRADE, Charles Schwab, Interactive Brokers, and Scottrade) offer market access and the ability to purchase and sell Treasury securities on a real time basis, similarly to equity securities. For example, on May 8, 2012, Fidelity Investments displayed live bid/ask quotes with size offered on its retail brokerage Web site for the current on-the-run 30-YR Treasury bond (the 3.125% bond due February 15, 2042) and the previous seventeen issued on-the-run 30-YR Treasury bonds starting with the due date of February 15, 2036. On-the run Treasury securities are generally the most recently issued U.S. Treasury bonds or notes of a particular maturity. The Exchange believes that the majority of broker/dealers in the U.S. offer readily available on-the-run Treasury prices.

[7] *See* Chicago Board Options Exchange (''CBOE'') rules 21.1–21.31. *See also* Securities Exchange Act Release No. 18371 (December 23, 1981), 46 FR 63423 (December 31, 1981) (SR–Amex–81–1; SR–CBOE–81–27) (order initially approving CBOE and Amex (now NYSE Amex) to list and trade options contracts on securities issued by the U.S. Treasury). The Exchange does not believe that currently these markets list options on debt securities issued by the U.S. Treasury or Government.

[8] Standardized options are options contracts trading on a national securities exchange, an automated quotation system of a registered securities association, or a foreign securities exchange that relate to options classes the terms of which are limited to specific expiration dates and exercise prices, or such other securities as the Commission may, by order, designate. 17 CFR 240.9b–1(a)(4). Standardized options are cleared by the OCC, which takes the position of counter-party in such transactions.

[9] Subsections (a)(2) and (a)(3) of proposed Rule 1001D, respectively. Other types of marketable securities issued by the Treasury (e.g. Treasury Inflation Protected Securities or TIPS) and non-marketable Treasury securities (e.g. government savings bonds) are not instruments that may underlie options for listing and trading.

[10] Subsection (a)(4) of proposed Rule 1001D.

[11] Proposed Rule 1006D.

[12] Upon completion of a Treasury auction, the most recently issued note or bond becomes on-the-run and the previous on-the-run issue goes off-the-run. The Exchange will only offer options that overlie the extremely liquid on-the-run Treasury securities, whose prices are readily available and are quoted by the media and various informational Web sites.

[13] For additional information about on-the run Treasury securities, *see http://www.investopedia.com/terms/o/on-the-runtreasuries.asp#axzz1zlFBaVZT.* The Treasury department uses on-the-run Treasury securities values to calculate daily yield curve rates at *http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield.*

For a recent academic study that uses on-the-run Treasury securities because of their liquidity, *see* Government Intervention and Strategic Trading in the U.S. Treasury Market, by Paolo Pasquariello, Jennifer Roush, and Clara Vega, June 2012. Pasquariello, Roush and Vega note that they specifically ''* * * focus on on-the-run issues because those securities display the greatest liquidity and informed trading.'' *See also* Measuring Treasury Market Security, by Michael J. Fleming, FRBNY Economic Policy Review/September 2003 (''Even though on-the-run securities represent just a small fraction of the roughly 200 Treasury securities outstanding, they account for 71 percent of activity in the interdealer market * * *''); and The Transition to Electronic Communications Networks in the Secondary Treasury Market, by Bruce Mizrach and Christopher J. Neely, Federal Reserve Bank of St. Louis Review, November/December 2006 (''There is much more secondary volume in on-the-run securities than off-the-run securities, with the former representing 70 percent of all trading volume…'').

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

[15] *See* Securities Exchange Act Release No. 66616 (May 16, 2012), 77 FR 16879 (May 22, 2012) (SR–Phlx–2012–11) (order approving listing FOREX options on Phlx). In the approval order, the Commission noted the liquidity of the forex markets underlying the PHLX FOREX options proposed by the Exchange. The Exchange notes that the appropriate dates for the citation are March 16, 2012 and March 22, 2012, respectively. *See* email from Jurij Trypupenko, Phlx, to Michael Gaw, Assistant Director, and Adam Moore, Attorney Advisor, Division of Trading and Markets, Commission, dated August 15, 2012.

[16] *See http://www.sifma.org/research/statistics.aspx* and *http://www.bis.org/publ/rpfx10.htm.*

traders would be able to use options on Treasury securities as short and long-term investment vehicles; as viable alternatives to potentially more risky derivative vehicles; and as a hedge against equity, option, or other security positions or against the risks associated with inverse interest rate movements while retaining the opportunity to profit from favorable movements.

The Exchange contends that trading Treasury securities options on the Exchange, as proposed, offers several distinct benefits.[17] First, options on Treasury securities would be traded in a highly regulated and transparent exchange environment. Second, as a result of the standardization of Treasury securities option contracts in conjunction with quoting and market making requirements, such option contracts should develop more liquid and deeper markets. Third, counterparty credit risk would be mitigated because the contracts would be issued and guaranteed by the OCC. And fourth, the quotation and last-sale data provided by the Exchange to the options processor, Options Price Reporting Authority (''OPRA''), and its members would lead to more transparent markets. The Exchange believes that expanding the universe of listed products available to market participants interested in Treasury securities options by listing such options on the Exchange could significantly increase competition with other exchanges that have the capability to list and trade derivatives on Treasury securities[18] as well as with the OTC market.[19]

Exchange Rules Are Applicable

The Exchange establishes the controlling principle that its existing rules and procedures are applicable to options on Treasury securities and the proposed rules would supplement existing Exchange rules. Proposed Rule 1000D states that unless otherwise specified, the rules in the 1000D Series are applicable only to options on Treasury securities. The rule states further that except to the extent that specific rules in the 1000D Series govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to equity options[20] and of the By-Laws[21] and all other Rules and Policies of the Board of Directors[22] (together referred to as ''current Exchange rules'') are applicable to the trading on the Exchange of options on Treasury securities. The Exchange underscores the general controlling principle that current Exchange rules are applicable by referring to current option rules in certain proposed Treasury securities options rules.[23]

Treasury securities options will generally trade on the Exchange's electronic options platform, Phlx XL[24] and settle like equity options on the Exchange. As noted, therefore, Exchange rules applicable to equity options trading will be applicable to Treasury securities options unless there is a specific rule in the 1000D Series to the contrary or a proposed rule supplements an existing rule.

Treasury securities options will be physically settled, European-style options that may be exercised only on the day that they expire.[25] Trading in Treasury securities options ordinarily will cease on the business day (usually a Friday) preceding the expiration date. Trading hours will correspond to the hours during which equity options are normally traded on the Exchange, which currently are 9:30 a.m. to 4:00 p.m. ET.[26] The expiration date will be the Saturday immediately following the third Friday of the expiration month.[27]

Definitions

Definitions applicable to Treasury securities and options on them are found in proposed Rule 1001D. Regarding products underlying options to be traded on the Exchange subsection (a)(1) states that ''Treasury securities'' represent a bond or note, or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal or interest by, the United States or a corporation in which the United States has a direct or indirect interest.[28] Next, the terms ''bond'' and ''note'' are defined. Subsection (a)(2) of proposed Rule 1001D states that Treasury notes are interest-bearing debt instruments issued by the U.S. Treasury with a term to maturity of at least two years but no more than ten years at the time of original issuance. Subsection (a)(3) states that Treasury bonds are interest-bearing debt instruments issued by the U.S. Treasury with a term to maturity of more than ten years at the time of original issuance.

The Exchange establishes two exercise price definitions in proposed Rule 1001D: exercise price and aggregate exercise price.[29] The Exchange also establishes the concept of a covered short call and put position in Treasury securities options.[30]

[17] The Exchange currently allows the trading of certain options that may reference Treasury Securities. Commentary .09(a)(iv) to Rule 1009 states that securities deemed appropriate for options trading currently include shares or other securities including Fixed Income Index-Linked Securities (''Fixed Income ILS''). Fixed Income ILS are described as securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities, government-sponsored entity securities, municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof or a basket or index of any of the foregoing (''Fixed Income Reference Asset'').

[18] For example, as noted CME lists futures and options on futures on Treasury securities (and other debt instruments). CBOE lists options on exchange traded funds and other vehicles that are invested in Treasury securities.

[19] Exchange listed options are viewed as a viable, liquid alternative to OTC options. This is, as discussed, because exchange listed options do not possess the negative characteristics often associated with non-exchange listed (OTC) options, such as lack of transparency; counterparty risk; and insufficient regulation, clearing arrangements, collateral requirements, and trade processing. The Exchange/OTC market distinction and the safeguards of central clearing and SRO regulation have become particularly evident and significant in the recent economic downturn.

[20] Option Rules 1000 *et seq.*

[21] By-Laws Articles I to VII.

[22] Rules of the Exchange Rule 1 *et seq.* and Options Floor Procedure Advices.

[23] For example, proposed Rule 1004D refers to current Rules 1001 regarding position limits, 1003 regarding reporting of options positions, and 1004 regarding liquidation of positions. Proposed Rules 1011D and 1012D refer to current Rule 1047 regarding trading rotations, halts and suspensions. Proposed Rule 1014D refers to current Rule 1014 regarding obligations and restrictions applicable to specialists and Registered Options Traders (''ROTs''; specialists and ROTs are defined in Rules 1020 and 1014(b)(i), respectively), and Rule 1080 regarding electronic trading via Phlx XL and XL II. Proposed Rule 1015D refers to current Rule 1059 regarding accommodation trading. Proposed Rule 1019D refers to current Rule 1014 regarding obligations and restrictions applicable to specialists and bid/ask differentials. Proposed Rule 1020D refers to current Rule 1043 regarding exercise assignment notices. Proposed Rule 1022D refers to Rule 721 regarding margin.

[24] *See* Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR–Phlx–2009–32) (order approving Phlx XL II).

[25] Proposed Rule 1008D(c).

[26] Proposed Rule 1010D. For trading hours on the Exchange, *see* Rule 101.

[27] Specifications for options on Treasury securities may be found at www.nasdaqtrader.com.

[28] *See* supra note 3.

[29] Subsections (a)(5) and (a)(6) of Rule 1001D, respectively, state: ''Exercise price'' in respect of a specific cusip option means the specified price at which the underlying Treasury security may be purchased or sold upon the exercise of the option contract. ''Aggregate exercise price'' in respect of a specific cusip option means the exercise price of an option contract multiplied by the principal amount of the underlying Treasury security covered by the option.

[30] Subsection (a)(7) of rule 1001D states: The term ''covered'' in respect of a short position in a Treasury security call option contract means that the writer holds in the same account on a principal for principal basis: (1) A long position in underlying Treasury securities that qualify for delivery upon exercise; (2) a long Treasury securities call option position for the same underlying security as the short call position where the expiration date of the long call position is the

Designation and Commencement of Trading

Treasury securities options will use a convention for describing (designating) options that is uniquely adapted to the nature of such options. Specifically, proposed Rule 1005D states that Treasury options purchased and sold on the Exchange will be designated by reference to the issuer of the underlying Treasury security, principal amount, expiration month (and year for the longest term option series), exercise price, type (put or call), stated rate of interest, and stated date of maturity or nominal term to maturity. For example, a specific cusip call option expiring in March and having an exercise price of 96 of the $10,000 principal amount of a 3 ¾% Treasury bond that matures on August 15, 2041, would be designated as a Treasury 3 ¾%—8/15/41 March 96 call.

Regarding specific cusip Treasury security options, subsection (a) to proposed Rule 1009D states that at any time after an auction sale of an underlying Treasury security, if the Exchange decides to initially open options for trading the Exchange shall open a minimum of one expiration month and series for each class of options.[31] These options are opened only on settled, on-the- run Treasury securities pursuant to the ''options listing timeframe'' concept established in Rule 1006D.[32] The Exchange notes that while the ''options listing timeframe'' concept is specific to Treasury securities options, the minimum one expiration month and one series requirement is wholly consistent with a similar requirement for other options traded on the Exchange.[33]

Additional series may also be opened when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or to reflect substantial changes in the prices of underlying Treasury securities. These series are opened pursuant to the ''additional series'' concept established in Rule 1006D.[34] The Exchange will give notice that it is opening any such additional options.[35]

Terms and Criteria for Listing and Trading

The Exchange proposes rules setting forth the initial and continued (maintenance) listing standards for Treasury securities options.

Specifically, subsection (a) of proposed Rule 1006D states that Treasury securities may be initially approved by the Exchange as underlying securities for Exchange transactions in specific cusip options, subject to requirements as to size of original issuance, aggregate principal amount outstanding, and years to maturity.

Additionally, the following factors must be met:

(1) The original public sale of an underlying Treasury security shall be at least $1 billion principal amount.

(2) In order to limit underlying Treasury securities that are approved for specific cusip options listings to the most recently issued and actively traded Treasury securities, Exchange approval of a Treasury security underlying Treasury options will only extend to the settled on-the-run Treasury security (''options listing timeframe''). However, the Exchange shall not approve a subsequent settled on-the-run Treasury security until after the expiration of all the options that are listed pursuant to the preceding options listing timeframe.

Moreover, any additional series of specific cusip Treasury options overlying the settled, on-the-run Treasury security may be opened only within the options listing timeframe.[36]

Proposed Rule 1006D establishes several principals. First, the proposed ''options listing timeframe'' of a Treasury security on which Treasury options may overlie always coincides with the on-the-run period for the Treasury security, once such option is settled.[37] This establishes that a Treasury security is eligible for listing of options only during its most liquid on-the run period. Second, options on a newly settled (subsequent) on-the-run Treasury security can only be listed after all the options that are listed pursuant to the preceding options listing timeframe expire. This minimizes or negates overlap and proliferation of Treasury options. As discussed, an on-the run Treasury security (e.g. 30 year bond) in the options listing timeframe becomes off-the-run when there is a subsequent auction for the Treasury security and as a result the newly settled security becomes on-the-run. The Exchange will not list options on the subsequent on-the-run Treasury security until all options listed within the options listing timeframe on the immediately preceding on-the-run Treasury security (which has become off-the-run) expire. Third, after options are initially listed in an options listing timeframe, any additional series of options may only be opened within the same options listing timeframe. Thus, new series of options may not be opened outside an options listing timeframe.

As an example, assume that for the 3.00% 30-year Treasury bond that matures on May 15, 2042, the on-the-run period would be the three calendar months of June, July, and August.[38] The auction for the 30-year bond would take place in June and the bond would settle within a week of the auction. This settled on-the-run period represents the ''options listing timeframe'' for the 30-year Treasury bond that the Exchange

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same as or subsequent to the expiration date of the short call position and the exercise price(s) of the long call position is equal to or less than the exercise price of the short call position; or (3) a custodial or Treasury securities escrow receipt pursuant to Rule 1022D.

The term ''covered'' in respect of a short position in a Treasury security put option contract means that the writer holds in the same account on a principal for principal basis: (1) a long Treasury security put option position for the same underlying security as the short put position where the expiration date of the long put position is the same as or subsequent to the expiration date of the short put position and the exercise price(s) of the long put position is equal to or greater than the exercise price of the short put position or (2) a Treasury security put guarantee letter pursuant to Rule 1022D.

[31] A single Treasury security option covers $10,000 principal amount of the underlying security. Proposed Rule 1008D.

[32] Proposed Rule 1006(a)(2) establishes that the ''options listing timeframe'' is when an underlying Treasury security is settled and on-the-run. In Exhibit 1 of the Form 19b-4 provided by the Exchange, the Exchange used the term ''opening time frame'' in several places in this discussion. Per the request of the Exchange, the term ''opening time frame'' has been replaced with ''options listing frame'' in this Notice. *See* email from Jurij Trypupenko, Phlx, to Michael Gaw, Assistant Director, and Adam Moore, Attorney Advisor, Division of Trading and Markets, Commission, dated August 15, 2012.

[33] *See* Rules 1012 (stock and ETF options) and 1101A (narrow and broad-based index options).

[34] Proposed Rule 1006D(a)(2) establishes that additional series of specific cusip Treasury options may be opened only within the ''options listing timeframe.'' While the ''options listing timeframe'' concept is specific to Treasury securities options, the series add procedure is otherwise similar to the process for adding other option series on the Exchange. *See* Rule 1012 in respect of equity and ETF options. As discussed, the exercise price of an option must be reasonably close to the price at which the underlying security is traded in the primary market at the time the series of options is first opened for trading. Proposed Rule 1008D.

[35] The Exchange generally provides notice via OTA or the Exchange Web site.

[36] Provided that, in respect of this second requirement, such approval may be extended in the event of the reopening of the underlying security by the Treasury, or in the event of issues where a reasonably active secondary market exists. Further, even prior to the end of such options listing timeframe and additional series, the Board (or a designee of the Board) shall withdraw approval of an underlying Treasury security at any time if it determines on the basis of information made publicly available by the Treasury that the security has a public issuance of less than $750 million, excluding stripped securities. Proposed Rule 1006D(a)(2).

[37] Currently, Treasury securities are settled within approximately a week after an auction occurs.

[38] This is a typical on-the-run period for a Treasury security.

can then list options on.[39] Thus, overlying the settled 30-year Treasury bond in the options listing timeframe, the Exchange could determine to initially list the following options: the Treasury 3.00%—5/15/42 June 99 call, 100 call, and 101 call, as well as three put strikes. And, within the options listing timeframe the Exchange could determine to list additional series as a 102 call and a 103 call. These options are within the limitations set forth in proposed Rule 1006D, which allows the Exchange to list Treasury options only on settled on-the-run Treasury securities, that is, within the options listing timeframe; and allows the Exchange to open additional series of options as long as they are within the options listing timeframe.

Proposed Rule 1007D states in subsection (a) that the Board (or a designee of the Board) may determine, for any reason, to withdraw approval of any Treasury securities that were initially approved for options trading pursuant to Rule 1006D as underlying securities.[40] Subsection (b) states that after any announcement by the Exchange of such withdrawal of approval, each member organization shall, if requested by a customer to effect an option transaction in such Treasury securities, inform such customer of the withdrawal of approval prior to affecting any transactions in such securities.

Minimum Price Variation and Bids and Offers

Proposed Rule 1013D discusses minimum increment and the unique meaning of bids and offers for options on Treasury securities. Specifically, subsection (a) provides that Treasury securities options shall have a minimum increment of $.01. Subsection (b) similarly provides that bids and offers for Treasury securities options shall be expressed in $.01 increments. The Exchange believes that the proposed $.01 increments are uniform and particularly appropriate for Treasury securities options to allow traders to make the most effective use of the product for trading and hedging purposes. The Exchange believe further that the proposed $.01 increments will not cause any capacity problems.

Penny increments have been used very effectively for more than five years on the Exchange as well as on other options markets. First, the Commission has approved the use of penny increments pursuant to the Penny Pilot, pursuant to which some of the highest-volume options trade in penny increments for series of options less than $3.00.[41] Second, the Commission has approved the use of penny increments for certain categories of products on the Exchange such as, for example, foreign currency options (FCOs, also known as World currency Options or WCOs).[42] Third, the Commission has approved the use of penny increments for specific option products on the exchange such as Alpha Index Options.[43] Fourth, the Commission has approved penny increments for various option products traded on other exchanges.[44] As such, the Exchange believes that penny increments are proper for Treasury securities options and represents that it has the necessary system capacity to support any additional Treasury securities option series that are listed pursuant to this proposal.

It is clear that inadequately narrow Treasury securities option intervals negatively impact trading and hedging opportunities.

As an example, if the increments were set at another interval level such as $0.50 instead of the proposed $0.01, and an investor wanted to spend no more than $375 to buy a down-side hedge with a put option on a Treasury bond currently trading 102.00, the investor would have the following strikes available from which to chose: an at-the-money (''ATM'') 102 put and an out-of-the-money (''OTM'') 101 put. If the bid/ask quote for the ATM 102 put was $350/$400, then the investor may elect not to pay $400 and may subsequently choose the lower OTM 101 put. Even if the resulting 101 put had a bid/ask of $200/$250, thereby allowing the investor to make a purchase for less than $375, the investor would have a different risk/reward scenario because the lower put would not represent an ATM hedge. Accordingly, the investor would have to carry the Treasury bond position with risk of market movement down to the 101 strike before the put becomes an ATM put. If, on the other hand, the proposed $0.01 intervals were effective, and the same investor had a choice of the same strikes from which to choose (an ATM 102 put and an OTM 101 put), at $0.01 intervals the premium cost for a hedge using the ATM 102 put may be about $359 to $360. This would garner the investor as much as a $40 or 10% savings in the cost to put on the desired hedge. The proposed interval range would clearly be very advantageous to investors; and would be costly if not available.

And as yet another example, if an investor were interested in purchasing a complex option spread, narrow option intervals would offer additional cost savings and choice. Using the noted 102 and 101 put example, an investor may choose to purchase (go long) a put spread as a hedge; this would be a complex order where the investor would buy the higher strike and simultaneously sell the lower strike for a debit. If the strike price increments were set at $0.50 and an investor wanted to spend no more than $150 to buy a down-side hedge via a long put spread, and the bid/ask of the 102 put was $350/$400 and the 101 put was $200/$250, the premium cost to the investor would be $200 (simultaneous purchase of the 102 put for $400 and

[39] Proposed Rule 1006D(a)(2).

[40] As with other options products (e.g. equity options, index options), Treasury security options that are no longer approved but have open interest would remain open for closing transactions only so that the open interest can trade out or expire.

[41] These include the highest-volume options overlying the PowerShares QQQ Trust (QQQQ)®, the SPDR S&P 500 Exchange Traded Funds (SPY), and the iShares Russell 2000 Index Funds (IWM) which, unlike other Penny Pilot options, trade at penny increments regardless of the price (the Penny Pilot establishes $.05 increments where the price is $3.00 or higher). *See* Securities Exchange Act Release No. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007)(SR-Phlx-2006–74)(notice of filing and approval order establishing Penny Pilot); and Rule 1034. All other options exchanges have similar penny pilot programs.

The Exchange notes that the Penny Pilot has structural limitations that make it wholly inappropriate for Treasury securities options. The Penny Pilot is, for example: (a) Available only for a limited number of equity, index, and ETF options, and all of the available slots are already used; (b) designed to be used by other exchanges that have similar pilots to multiply list and trade options, but as noted all other penny pilot markets do not have rules that would allow them to list Treasury securities options; and (c) is severely limited in terms of price below $3.00.

[42] *See* Securities Exchange Act Release No. 60169 (June 24, 2009), 74 FR 31782 (July 2, 2009) (SR–Phlx–2009–40) (order approving listing and trading of FCOs or WCOs at penny increments); and Rule 1034.

[43] *See* Securities Exchange Act Release No. 63860 (February 7, 2011), 76 FR 7888 (February 11, 2011)(SR–Phlx–2010–176) (order approving listing and trading Alpha Index Options); and Rule 1034.

[44] *See* Exchange Act Release Nos. 64991 (July 29, 2011), 76 FR 47280 (August 4, 2011) (SR–CBOE–2011–039) (order approving listing and trading single stock dividend options in penny increments); 63352 (November 19, 2010), 75 FR 73155 (November 29, 2011)(SR–CBOE–2011–046) (order approving amendments regarding credit default options, including penny increments); 31169 (May 22, 2008), 73 FR 31169 (May 30, 2008) (SR–CBOE–2006–105) (order approving listing and trading binary options on broad-based securities in penny increments); and 58486 (September 8, 2008), 73 FR 53298 (September 15, 2008) (SR–ISE–2008–36) (notice and filing and immediate effectiveness proposing to permit ISE members to enter non-displayed electronic orders and quotes in penny increments, citing to SR–CBOE–2007–39 and SRNASDAQ–2007–004 and SR–NASDAQ–2007–080). *See also* NYSE Arca Equities Rule 7.6, Commentary .03, which indicates that the minimum price variation for quoting and entry of orders in equity securities traded on Arca is $.01, with the exception of securities that are priced less than $1.00 for which the MPV for order entry is $0.0001.

sale of the 101 put for $200). However, if the proposed $0.01 intervals were effective, and an investor wanted to spend no more than $150 to buy a down-side hedge via a long put spread, and the bid/ask of the 102 put was $359/$360 and of the 101 put was $220/$221, the premium cost would be $140 (simultaneous purchase of the 102 put for $360 and sale of the 101 put for $220). This would garner the investor as much as a $60 or 30% savings in the cost to put on the desired hedge. The proposed interval range would clearly be very advantageous to investors; and would be costly if not available.[45]

Proposed Rule 1014D sets forth that current Rule 1014 is applicable to Treasury securities options. Rule 1014 sets for obligations and restrictions applicable to specialists and ROTs and discusses, among other things, market making obligations, quoting obligations and parameters, and priority. Proposed Rule 1014D also sets forth that Rule 1080 is applicable to Treasury securities options. Rule 1080 discusses the operation of Phlx XL and XL II, which are the Exchange's electronic platform in respect of orders, execution and trades. The Exchange specifically notes Rules 1014 and 1080 in proposed Rule 1014D because of the applicability to Treasury securities options trading of fundament trading-related matters in Rules 1014 and 1080 such as, for example, market making and quoting obligations, priority, and electronic trading.

The Exchange likewise proposes Rule 1019D regarding maximum bids and offers that may be maintained by specialists and ROTs in options on Treasury securities. This rule states that without limiting the general obligation to deal for his account as stated in Rule 1014,[46] a specialist or ROT holding an appointment in Treasury securities options is expected, in the course of maintaining a fair and orderly market, to bid and/or offer so as to create differences of:

(1) No more than $0.25 between the bid and offer for each option contract for which the bid is less than $1;

(2) no more than $0.50 where the bid is $1 or more but less than $5;

(3) no more than $0.80 where the bid is $5 or more but less than $10; and

(4) no more than $1 where the bid is $10 or more.[47]

Subsection (b) of Rule 1019D states that for all longer term series the maximum bid/ask differentials are double those listed in subsection (a). This subsection states further that the differentials apply only to the two nearest term series of each class of Treasury security options. The Exchange notes that the proposed increments and maximum bid/ask variations are designed to allow the Exchange flexibility to list options with strike increments at appropriate levels, while diminishing any potential adverse effect on the Exchange's quote capacity thresholds. The Exchange believes that the operational capacity used to accommodate the trading of Treasury securities options on the Exchange will have a negligible effect on the total capacity used by the Exchange to trade its products on a daily basis.

Expiration and Exercise

Proposed Rule 1008D discusses expiration and exercise price in respect of Treasury securities options. Subsection (a) states that a single Treasury security option covers $10,000 principal amount of the underlying security. The expiration month and exercise price of Treasury security options of each series shall be determined by the Exchange at the time each series of options is first opened for trading.[48]

Subsection (b) provides that Treasury security options opened for trading on the Exchange will expire on a monthly basis, none further out than the options listing timeframe and additional series as defined in Rule 1006D.[49] Subsection (c) provides that Treasury security options may be exercised only on the day that they expire. The subsection provides further that the exercise price of each series of Treasury security options shall be fixed at a price denominated in $0.50. In the case of a specific cusip Treasury security option, the exercise price will be reasonably close to, and no more than 20% away from, the price at which the underlying security is traded in the primary market at the time the series of options is first opened for trading.[50] The proposed rule also states that the exercise price of additional series will be fixed at a multiple of $0.50.[51]

Proposed Rule 1020D discusses exercise assignment notices in the case of Treasury securities options. Subsection (a) states that the method of allocation of exercise notices established pursuant to Rule 1043 may provide that an exercise notice of block size [52] shall be allocated to a customer or customers having an open short position of block size; and that an exercise notice of less than block size shall not be allocated, to the extent feasible, to a customer having a short position of block size. In the case of call option contracts, subsection (b) states that a member organization shall allocate an exercise notice to a customer who has made a specific deposit of the underlying security if it is directed to do so by the OCC.

Settlement and Delivery/Payment

Options on Treasury securities will be physically settled and, being European style options, may be exercised only on the expiration date. The settlement process for Treasury securities options will be the same as the settlement process for equity options under current Exchange rules (e.g. Rule 1044).

[45] The Exchange notes that in that Treasury security option positions could be quite large because the underlying instruments would be in $10,000 denominations, the percentage savings discussed in the examples could be very significant.

[46] Rule 1014 is, similarly to the relationship between current and proposed rules in the filing, supplemented by proposed Rule 1019D. While bid/ask (offer) differentials are set forth for other (non-Treasury securities) options in Rule 1014, specific bid/ask (offer) differentials are set forth for Treasury securities options in proposed Rule 1014D. This is in line with the principle that while current options trading rules (e.g. 1014 and 1080) are applicable to Treasury securities options, certain rules specifically tailored to Treasury securities options trading are promulgated in this proposal.

[47] This is similar to the structure for maximum bids and offers for equity, index, and FCO (WCO) options on the Exchange. See Rule 1014(c).

[48] When opening a Treasury security option for trading, the Exchange will open at least one series and one month. Proposed Rule 1009D(a). The Exchange may open Treasury options within the ''opening time frame,'' *see* proposed Rule 1006D(a)(2), which coincides with the on-the-run period for the underlying Treasury security. The Exchange has the ability to open and add Treasury options in one or all of the months in the opening timeframe. *See also* supra notes 36 and 37 and related text.

[49] *But cf.* CBOE Rule 21.8(b), which allows the CBOE board (or a designee of the board) to provide alternate expiration cycles after notifying traders of Treasury security options.

[50] The Exchange believes that in light of the potential volatility in bond prices, the proposed 20% exercise price band around the underlying is quite reasonable. *See,* e.g., Commentary .06 to Rule 1012 establishing a 20% volatility band (20% above and 20% below) for currency options (FCOs or WCOs).

[51] The Exchange notes that relatively small portions of a dollar, such as for example a quarter or less, may have a significant effect on exercise prices of positions held by traders and public customers because of the large size of the underlying Treasury securities options. The Exchange notes further that futures on similar Government securities, with which the proposed Treasury securities options would compete, enjoy intervals that are as small as one sixty-fourth of a point (dollar).

To minimize the proliferation of strikes, however, the Exchange is proposing somewhat larger $0.50 intervals for Treasury securities option exercise strike prices.

[52] For the purposes of this Rule, an exercise notice or a short position in a series of options where the total principal amount is $1 million or more and where the underlying security is a Treasury security shall be deemed to be of ''block size.'' Subsection (c) of Rule 1020D.

Subsection (a) to proposed Rule 1021D states, in respect of delivery and payment of options on Treasury securities, that payment of the aggregate exercise price in the case of specific cusip options must be accompanied by payment of accrued interest on the underlying Treasury security. The interest will be from (but not including) the last interest payment date to (and including) the exercise settlement date as specified in the rules of the OCC.

Position Limits

In determining position limit compliance, proposed Rule 1002D establishes initial and maintenance position limits unique to options on Treasury securities.

Regarding initial position limits, subsection (a) of proposed Rule 1002D provides that the options shall be subject to a contract limitation (whether long or short) of the put type and the call type on the same side of the market covering a value no greater than 7.5% of the value of the initial or reopened public issuance, rounded to the next lower $100 million interval. For purposes of this position limit, there will be a combining of long positions in put options with short positions in call options, and short positions in put options with long positions in call options; or such other lower amount of options as fixed from time to time by the Exchange as the position limit for one or more classes or series of options. Subsection (a)(1) provides that in no event shall the position limit exceed a position on either side of the market covering a value in excess of $750,000,000 of the underlying securities. Subsection (a)(2) requires that the Exchange provide reasonable notice of each new position limit fixed by the Exchange, by notifying members thereof via OTA.

To calculate the proposed $750,000,000 position limit proposed in Rule 1002D, the Exchange is using Position Accountability Levels (''Accountability Levels'' or ''limits'') for Treasury futures and options on such futures on CBOT as the starting basis. Unlike the current situation on options markets, where there is no active trading of Treasury derivatives, CBOT has the most active markets in the U.S. for trading listed futures on Treasuries and options on such futures. The current CBOT Accountability levels, which effectively serve as position limits on CBOT Treasury derivatives,[53] are the equivalent of dollar position limits with a notional value of $2,500,000,000 for options on futures and $1,000,000,000 for futures on Treasury bonds traded on CBOT; and $2,000,000,000 for options on futures and $750,000,000 for futures on Treasury notes traded on CBOT.[54] The Exchange is using these notional position limit values as a starting point to which it applies a conservative methodology to arrive at a proposed $750,000,000 proposed position limit in Rule 1002D for options on Treasury securities traded on the Exchange. First, the Exchange is using the CBOT futures Accountability limit for Treasury bonds (notional value of $1,000,000,000) to establish the proposed position limit for options on Treasury securities. This is because CBOT futures on Treasuries, rather than CBOT options on such futures, are arguably more similar to Exchange options on Treasury securities.[55] Second, the Exchange is then applying a 25% haircut to the $1,000,000,000 notional value for CBOT Treasury futures. This is because Exchange options on Treasury securities would settle into a single cusip Treasury security while CBOT Treasury futures and options settle into the cheapest to deliver Treasury security. And third, when compared to CBOT Treasury options on notes the proposed $750,000,000 position limit for Exchange options on Treasury securities is more that 60% lower that the position limit for CBOT Treasury options on futures (notional value of $2,000,000,000).[56]

The Exchange believes that its very conservative proposed nominal dollar position limit, in conjunction with the proposed equally conservative 7.5% of the value of the initial or reopened public issuance,[57] will minimize (negate) potential manipulation and fraudulent activity in Treasury options.[58]

Regarding maintenance of position limits for Treasury securities options, subsection (b) of proposed Rule 1002D provides that in the event that any of the underlying Treasury securities are reported as ''separate trading of registered interest and principal of securities'' (''strips'') in the Monthly Statement of the Public Debt of the United States Government, or such other report or compilation as may be selected from time to time by the Exchange, such stripping shall be taken into account in determining whether the position limit as initially established under paragraph (a) (''the established position limit'') can be maintained (the remaining non-stripped underlying securities are hereinafter referred to as ''the non-stripped securities'').

Subsection (b)(1) states that the established position limit may remain so long as the position limit covers a principal amount of underlying securities not in excess of 7.5% of the non-stripped securities. However, in the event that the established position limit covers a principal amount of securities in excess of 7.5% of the non-stripped securities, the Exchange shall reestablish the position limit to cover a principal amount of underlying securities not in excess of 7.5% of the non-stripped securities.[59] Subsection (2) provides that except as otherwise exempted under Exchange rules, persons whose positions exceed revised position limits may only engage in liquidating transactions until their positions are lower than the revised position limits.

By virtue of proposed Rule 1003D, exercise limits for options on Treasury securities are equivalent to position limits on these instruments. This is similar to the relationship of position

[53] *See http://www.cmegroup.com/rulebook/files/CBOTChapter5_InterpretationClean.pdf.*

[54] The dollar equivalent position limit value for options on Treasury bonds traded on CBOT, as an example, is calculated as follows: 25,000 share CBOT Accountability Level × CBOT Treasury option face value of $100,000 × Phlx option on Treasury security face value of $10,000 = $2,500,000,000.

[55] CBOE Treasury futures will, like Exchange options on Treasury securities, settle into the underlying Treasury notes or bonds; CBOT options on Treasury futures, on the other hand, will settle into the underlying derivative instruments (futures).

[56] The proposed $750,000,000 position limit for Exchange options on Treasury securities approximates the notional position limit for CBOT Treasury futures on notes.

[57] Upon examining U.S. Treasury record setting auction data at *http://www.treasurydirect.gov/instit/annceresult/auctdata/auctdata_statdata.htm,* which has ''Highest Offering Size'' for Treasury bonds and notes, the Exchange believes that the proposed 7.5% limit is quite conservative. For example, if the 7.5% maximum were applied to the ''Highest Offering Size'' for the 30 Year Treasury Bonds, which was $16,000,000,000 on November 12, 2009 (and was $44,000,000,000 for 2-year Treasury notes), the maximum value would be $1,200,000,000. By establishing the proposed, substantially lower position limit of 7.5% and $750,000,000, the Exchange has put into place a mechanism that guards against achieving higher automatic positions limits in all Treasury bonds and notes, including the higher offering size 2-year Treasury notes.

[58] The Exchange also notes that its proposed position limits are significantly smaller that the position limits that were approved by the Commission decades ago for trading Treasury options on CBOE. *See* CBOE Rule 21.3(a), which states, in relevant part that: * * * Options on a Treasury security shall be subject to a contract limitation (whether long or short) of the put type and the call type on the same side of the market covering a value no greater than 10% of the value of the initial or reopened public issuance, rounded to the next lower $100 million interval * * * In no event shall the position limit exceed a position on either side of the market covering a value in excess of $1,200,000,000 of the underlying securities.

[59] Such revisions will become effective the Monday following the provision of notice thereof via OTA.

and exercise limits for equity and other options pursuant to current Exchange rules.[60]

Moreover, proposed Rule 1004D states that for purposes of Rules 1003 and 1004,[61] references to Rule 1001 in connection with position limits shall be deemed, in the case of Treasury securities options, to be to Rule 1002D. The proposed rule states further that the reference in Rule 1003(a) to reports required of positions of 200 or more options shall, in the case of Treasury securities options, be revised to positions of options covering $2 million or more principal amount of underlying Treasury securities, for example, the 3.125% bonds due in the year 2042.

Margin

The current procedure for establishing margin on the Exchange is in Rule 721. The rule states that member organizations must elect whether they will follow CBOE or New York Stock Exchange (''NYSE'') margin rules, notify the Exchange of the election, and comply with the applicable rules.[62] The Exchange proposes to amend Rule 721(b) to state that upon the filing of such election, a member organization engaged in trading Treasury securities options on the Exchange shall, in respect of such trading, comply with the NYSE initial and maintenance margin rules or CBOE margin rules in Chapter XII (not CBOE Government security options margin rules in Chapter XXI).[63] Chapter XXI is specifically excluded to underscore that Exchange members must use CBOE option margin rules located in Chapter XII (or must use NYSE initial and maintenance margin rules). Proposed Rule 721(b) provides, however, that short Treasury securities options traded on the Exchange shall follow the margin percentage requirements for short equity options in NYSE margin rules or the margin percentage requirements for short equity options in CBOE Chapter XII; and that portfolio margin shall not be applicable to Treasury securities options.[64]

Proposed Rule 1022D states that Exchange member organizations shall comply with initial and maintenance margin requirements per Rule 721. By operation of proposed Rule 1022D, member organizations involved in trading Treasury security options will be bound by CBOE or NYSE options margin rules consistent with member organizations' choices of CBOE or NYSE for other margin purposes.

The Exchange believes that this proposed margin procedure is particularly appropriate for Treasury securities options. First, it ensures consistency in that member organizations must consistently follow the margin rules of either CBOE or NYSE according to their written margin rules election per Rule 721; and in particular must follow the short equity margin percentage requirements of CBOE or NYSE. Second, it is operationally and systemically efficient in that member organizations can immediately apply the relevant margin procedures that they use for options margin (e.g. short equity margin percentages) to the proposed new Treasury securities options; and the Exchange can use established margin surveillance processes, thereby reducing the potential for error from all perspectives. And third, the current option margin rules of CBOE are, without a doubt, more up to date and usable in today's fast-paced hybrid and electronic trading environment than the decades-old CBOE Government securities options margin rules.

When trading short Treasury securities options, member organizations must, per proposed Rule 721, apply NYSE or CBOE short equity margin rules. Thus, in terms of CBOE margin rules, CBOE Rule 12.3 (which contains a 20% short margin requirement) would be applicable to equity options margin as well as to Treasury securities margin. As an example, when applying the 20% short margin requirement to one short at-the-money equity option call contract priced at $3.00 on XYZ stock priced at $100.00, the margin would be $2,300. This amount is calculated by adding 100% of options proceeds received (one call option contract priced at $3.00 equals $300) plus 20% of the underlying security value (the underlying security value of 100 shares of XYZ stock priced at $100.00 equals $10,000). And, when applying the 20% short margin requirement to one short at-the-money Treasury securities option call contract priced at $3.00 on an on-the-run 30 year Treasury bond priced at $100.00, the margin would be $2,300. This amount is calculated by adding 100% of options proceeds received (one call option contract priced at $3.00 equals $300) plus 20% of the underlying security value (the underlying principal value of a single option on-the-run 30 year Treasury bond equals $10,000). The Exchange believes that the short Treasury security option margin methodology proposed reflects a proper, and indeed very safe, margin requirement.[65]

Doing Business With the Public

Proposed rule 1025D sets up guidelines dealing with customer account approval and supervisory qualification. Subsection (a) states that approval of the accounts of customers shall be conducted in accordance with Rule 747 [66] and, in the case of institutional options customers (i.e., customers that are not natural persons), a member organization shall seek to obtain the following information:

(1) Evidence of authority for the institution to engage in Treasury securities options transactions (corporate resolutions, trust documents, etc.);

(2) Written designation of individuals within the institution authorized to act for it in connection with Treasury securities options transactions; and

(3) Basic financial information concerning the institution.

Subsection (b) states that as a general matter, supervisory qualifications of a Registered Options Principal may be demonstrated only by successful completion of an examination prescribed by the Exchange (e.g. Series 4) for the purpose of demonstrating an adequate knowledge of Treasury securities options and the underlying Treasury securities.[67] Subsection (c)

[60] *See* Rules 1001 and 1002 (equity, ETF, currency options) and Rules 1001A and 1002A (index options).

[61] Rule 1003 deals with reporting of options positions and Rule 1004 deals with liquidation of options positions.

[62] *See* Rule 721(b). Moreover, the rules states that the election shall be promptly made in writing by a notice filed with the Exchange; and that each member organization shall be bound to comply with the margin rules of CBOE or NYSE, as applicable, as though said rules were part of the Exchange's Margin Rules.

[63] CBOE Chapter XXI, which is not be used for Treasury securities options, contains rules for Government securities options including margin requirements in Rule 21.25.

NYSE initial and maintenance margin requirements are generally in NYSE Rule 431.

[64] For general information regarding portfolio margin, *see http://www.investopedia.com/terms/p/portfolio-margin.asp#axzz21e62XlUP.*

[65] Moreover, the Exchange believes that the relationship of the underlying principal (in terms of Treasury securities options) compared to the equivalent amount of underlying shares (in terms of equity options) is appropriate. For example, 100 shares of XYZ stock priced at $100 equals $10,000, which is the same amount as a single on-the-run Treasury security option covering a $10,000 principal amount of the underlying Treasury security.

[66] Rule 747, which is applicable to all Exchange member organizations, among other things indicates that prior to making any brokerage transaction for the account of a customer, the opening of a customer account must have been properly approved.

[67] In exceptional circumstances and where good cause is shown, however, the Exchange may, upon written request by a member organization, accept as

Continued

states that the conduct of Treasury securities option business at a branch office of a member organization may be supervised by any Registered Options Principal of the member organization. Subsection (d) states that any sales personnel of a member organization who solicit or accept customer orders with regard to options on Treasury securities shall be deemed qualified with regard to such options after such personnel successfully completed an examination prescribed by the Exchange for the purpose of demonstrating adequate knowledge of options and the underlying Treasury securities.

Other Trading-Related Rules

The Exchange proposes additional trading-related rules for Treasury securities options that are similar to certain rules that are applicable to equity and other options. Proposed Rule 1018D states that a limit order book will be available for Treasury securities options. Proposed Rule 1015D states that accommodation trading under the applicable terms and conditions of Rule 1059 will be available in each series of Treasury securities option contracts open for trading on the Exchange. However, bids or offers for opening transactions at a price of $1 per option contract may be executed only with closing transactions that cannot at that time in open outcry be executed with another closing transaction. Proposed Rule 1016D states that all members, member firms, and clearing members shall resolve unmatched trades in Treasury security options from the previous day's trading no later than 9:00 a.m. (Eastern Time) of the following business day. And proposed Rule 1024D permits members to establish and maintain communication links with other members for the purpose of obtaining timely information on price movements in Treasury securities on which options are dealt in on the Exchange.

Proposed Rule 1023D sets forth procedures regarding furnishing of books, records, and other information to the Exchange. Subsection (a) provides that no specialists or ROTs in Treasury securities options shall fail to make available to the Exchange books, records or other information [68] as may be called for under the rules or as may be requested in the course of any investigation, any inspection or other official inquiry by the Exchange. In addition, the provisions governing identification of accounts and reports of orders shall, in the case of specialist or ROTs in Treasury securities options, apply to (i) accounts for Treasury securities deliverable under the terms of the option contracts involved, Treasury securities futures, options on Treasury securities futures and Treasury securities options trading; and (ii) orders entered by the specialist or ROT for the purchase or sale of Treasury securities deliverable under the terms of the options contracts involved, Treasury securities futures, options on Treasury securities futures, options on Treasury securities and opening and closing positions therein. Also, subsection (b) states that any corporate affiliate of a specialist or ROT in Treasury securities options shall maintain and preserve such books, records or other information as may be necessary to comply with this rule.

Proposed Rules 1011D and 1012D state that Rules 1047 and 1092 are applicable to Treasury securities options. Rule 1047 governs trading halts, rotations and suspensions, and Rule 1092 governs obvious errors and catastrophic errors for equity (and other) options traded on the Exchange. Proposed Rule 1012D(a) states that in addition to the factors set forth in Rule 1047, a factor that may be considered by Options Exchange Officials in connection with the institution of trading halts is that current quotations for the underlying Treasury securities are unavailable or have become unreliable; or that there is a need to prevent an unfair and disorderly market.[69]

Proposed Rule 1012D(b) states that Rule 1092 error procedures shall be applicable to Treasury securities options. The Exchange proposes to amend Rule 1092(a) to state, for purposes of conformity, that Treasury security options will have the same obvious error thresholds as equity and index options.[70]

FOR TREASURY SECURITIES OPTIONS

| Theoretical price | Minimum amount |
|---|---|
| Below $2 | $.25 |
| $2 to $5 | .40 |
| Above $5 to $10 | .50 |
| Above $10 to $20 | .80 |
| Above $20 | 1.00 |

The Exchange believes that the proposed obvious error threshold, being similar to equity and index options thresholds, will promote consistency and predictability for traders; and that the thresholds are proper in light of the expected trading Treasury options trading ranges.[71] The Exchange also proposes to amend Rule 1092(c)(iv)(D) to state that, similarly to equity options, treasury security option trades on the Exchange will be nullified when the trade occurred during a trading halt of the underlying Treasury security instituted by the United States Government. Unlike other exchange-traded options products that have a primary market for the underlying security (for example, equity options and index options), there is no similar primary market for underlying Treasury securities that are traded over the counter. As such, a Treasury security options trading halt would be based on a trading halt of the underlying Treasury security instituted by the United States Government.[72]

Surveillance

The Exchange will implement surveillance systems that are being used for equity, ETF, currency, and index options to monitor trading in Treasury securities options. This will include, but not be limited to, monitoring for insider trading, manipulation, front-running, and capping and pegging. The Exchange will also monitor public media for rating downgrades and other relevant actions to ensure that the Exchange's maintenance standards are fulfilled, and will monitor for any material actions that may influence the pricing of Treasury securities and options thereon.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act [73] in general, and furthers the objectives of Section 6(b)(5) of the Act [74]

a demonstration of equivalent knowledge other evidence of a Registered Options Principal's supervisory qualifications.

[68] More specifically, such books, records, or information as maintained by or in the possession of such member or any corporate affiliate of such member pertaining to transactions by such member or any such affiliate for its own account in Treasury securities, Treasury securities futures or in Treasury securities options.

[69] For example, where the underlying Treasuries are still trading, there may be a severe anomaly in the Treasury options market caused by, for example, by an extreme price move in the equities market which triggers a circuit breaker and halts equity and other trading for a period of time.

[70] The proposed new language in Rule 1092(a) will add, regarding Treasury securities options, that for purposes of the rule an Obvious Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for a series by an amount equal to at least the amount shown in the table above.

[71] Moreover, the Exchange notes that as with any new product, the Exchange will adjust the Treasury options obvious error rule based on experiential need.

[72] As discussed, a Treasury securities option trading halt may also be instituted to prevent an unfair and disorderly market.

[73] 15 U.S.C. 78f(b).

[74] 15 U.S.C. 78f(b)(5).

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, by implementing new rules allowing the Exchange to list options on Treasury debt securities and allow trading thereon.

The Exchange believes that the proposed rules for listing and trading Treasury securities options, including options on Treasury notes and bonds, are reasonable and consistent with the Act. The Exchange believes that its proposal would enhance competition and provide access to an additional trading and investing vehicle so that traders and large, institutional, retail, and public investors could more effectively and closely tailor their investing and hedging decisions.

The Exchange has proposed rules that are specifically tailored for trading Treasury security options. Pursuant to these proposed rules, the underlying Treasury securities may be approved as appropriate for listing options subject to requirements as to size of original issuance, aggregate principal amount outstanding, or years to maturity. The proposed position limits, exercise limits, margin rules, and other rules, in conjunction with the current Exchange rules, are particularly tailored for Treasury securities options, reasonable, and consistent with the Act. In particular, the proposed position and exercise limits reasonably balance the promotion of a free and open market for these securities with minimization of incentives for market manipulation and insider trading; and the proposed margin rules are reasonably designed to deter a member or its customer from assuming an imprudent position in Treasury securities options.

For these and previously-noted reasons, the Exchange believes that the proposal to allow the Exchange to list and permit trading of Treasury securities options would enhance competition and provide access to valuable additional trading and investing vehicles. These would allow traders and investors—including large and institutional investors and retail and public investors—to more effectively tailor their investing and hedging decisions in the current challenging economic climate.

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

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. To the contrary, the Exchange believes that its proposal is pro-competitive. The proposal will allow a new and innovative options product to be listed and traded on the Exchange. This will give market participants the ability to significantly expand their trading and hedging capabilities.

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

No written comments were either solicited or received.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

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

## IV. Solicitation of Comments

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

*Electronic Comments*

- Use the Commission's Internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–Phlx–2012–105 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–2012–105. This file number should be included on the subject line if email is used.

To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (*http://www.sec.gov/rules/sro.shtml*). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–Phlx–2012–105, and should be submitted on or before September 13, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[75]

**Elizabeth M. Murphy,**

*Secretary.*

[FR Doc. 2012–20714 Filed 8–22–12; 8:45 am]

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[75] 17 CFR 200.30–3(a)(12).

## SMALL BUSINESS ADMINISTRATION

## Notice of Action Subject to Intergovernmental Review Under Executive Order

**AGENCY:** U.S. Small Business Administration.

**ACTION:** Notice of Action Subject to Intergovernmental Review Under Executive Order 12372.

**SUMMARY:** The Small Business Administration (SBA) is notifying the public that it intends to grant the pending applications of 22 existing Small Business Development Centers (SBDCs) for refunding on October 1, 2012, subject to the availability of funds. Nine states do not participate in the EO 12372 process; therefore, their addresses are not included. A short description of the SBDC program follows in the supplementary information below.

The SBA is publishing this notice at least 90 days before the expected refunding date. The SBDCs and their mailing addresses are listed below in the address section. A copy of this notice also is being furnished to the