Proposed Rule Change by Philadelphia Stock Exchange

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

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<th>Amendment</th>
<th>Withdrawal</th>
<th>Section 19(b)(2)</th>
<th>Section 19(b)(3)(A)</th>
<th>Section 19(b)(3)(B)</th>
<th>Rule</th>
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Extension of Time Period for Commission Action

Date Expires

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Description

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed rule change relating to the definition of "Complex Trade" for Linkage purposes.

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 Richard  
Last Name Rudolph

Title Vice President and Counsel

E-mail Richard.Rudolph@phlx.com

Telephone (215) 496-5074  
Fax (215) 496-6729

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.

Date 02/07/2007

By Richard S. Rudolph  
Vice President and Counsel

(Name)  
(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.
### Form 19b-4 Information
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
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
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
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
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
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
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**

The Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)\(^1\) and Rule 19b-4 thereunder,\(^2\) proposes to amend Exchange Rule 1083(c) to revise the definition of “Complex Trade” as that definition applies to trades under the Plan for the Purpose of Creating and Operating an Options Intermarket Linkage (the “Linkage Plan”).

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit I. The text of the proposed rule change is set forth below. Brackets indicate deletions; underlining indicates new text.

**Intermarket Linkage**

**Rule 1083. Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of Rules 1083 through 1087:

(a) – (b) No change.

(c) “Complex Trade” means the execution of an order in an options series in conjunction with the execution of one or more related orders(s) in different options series in the same underlying security occurring at or near the same time for the purpose of executing a particular investment strategy and for an equivalent number of contracts, provided that the number of contracts of the legs of a spread, straddle, or combination order may differ by a permissible ratio [for the equivalent number of contracts and for the purpose of executing a particular investment strategy]. The permissible ratio for this purpose is any ratio that is equal to or greater than one-to-three (\(\frac{1}{3}\)) and less than or equal to three-to-one (3.00).

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2. **Procedures of the Self-Regulatory Organization**

The Exchange’s Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission (“SEC” or “Commission”) on January 30, 2007.

Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074, or Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.

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

   a. **Purpose**

   The purpose of the proposed rule change is to amend the definition of “Complex Trade” in the Exchange’s rules that relate to the Linkage Plan. For Linkage purposes, Exchange Rule 1083(c) currently defines a “Complex Trade” as a trade reflecting the execution of an order in an options series in conjunction with one or more other orders in different series in the same underlying security for the equivalent number of contracts.

   Under the proposal, a “Complex Trade” includes a spread, straddle, or combination order where the number of contracts on the legs of the spread, straddle, or combination order differs by any ratio equal to or greater than one-to-three and less than or equal to three-to-one. A Complex Trade is exempt from trade-through liability.\(^3\)

   The Exchange notes that its current rules provide that the components of spread, straddle and combination orders must generally offset one another on a one-for-one basis,\(^4\) and that priority concerning ratio and other types of spreads currently applies only

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\(^3\) See Exchange Rule 1085(b)(7).

\(^4\) See Exchange Rules 1066(f) and (g).
to foreign currency options.\textsuperscript{5} In order to make those rules and instant proposal
consistent, the Exchange has filed a separate proposed rule change to permit such order
types on other than a one-for-one basis, and to establish priority for such orders in all
options traded on the Exchange.\textsuperscript{6}

This proposal would adopt the same definition of “Complex Trade” as that on
other options exchanges.\textsuperscript{7}

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\textsuperscript{8}
in general, and furthers the objectives of Section 6(b)(5) of the Act\textsuperscript{9} 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 establishing a uniform
definition of “Complex Trade” for purposes of the Linkage Plan.

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.

\textsuperscript{5} See Exchange Rules 1033(f), (g) and (h).

\textsuperscript{6} See SR-Phlx-2006-91.

73; and SR-NYSEArca-2007-01).

\textsuperscript{8} 15 U.S.C. 78f(b).

\textsuperscript{9} 15 U.S.C. 78f(b)(5).
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)**

   Because the foregoing rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

   A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange provided such notice on January 30, 2007.
8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is based on International Securities Exchange, Inc. (“ISE”) Rule 1900(3); American Stock Exchange LLC (“Amex”) Rule 940(b)(3); Boston Options Exchange (“BOX”) Rules, Chapter XII, Section 1(c); Chicago Board Options Exchange, Inc. (“CBOE”) Rule 6.80(4); and NYSEArca Rule 6.92(a)(4).\(^\text{10}\)

9. **Exhibits**

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

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SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2007-09)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the
Definition of “Complex Trade”

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)\(^1\), and
Rule 19b-4\(^2\) thereunder, notice is hereby given that on _________________ 2007,
the Philadelphia Stock Exchange, Inc. (“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 Phlx. 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 Phlx, pursuant to Section 19(b)(1) of the Act\(^3\) and Rule 19b-4 thereunder,\(^4\)
proposes to amend Exchange Rule 1083(c) to revise the definition of “Complex Trade”
as that definition applies to trades under the Plan for the Purpose of Creating and
Operating an Options Intermarket Linkage (the “Linkage Plan”). The text of the
proposed rule change is set forth below.

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Brackets indicate deletions; underlining indicates new text.

**Intermarket Linkage**

**Rule 1083. Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of Rules 1083 through 1087:

(a) – (b) No change.

(c) “Complex Trade” means the execution of an order in an options series in conjunction with the execution of one or more related orders(s) in different options series in the same underlying security occurring at or near the same time for the purpose of executing a particular investment strategy and for an equivalent number of contracts, provided that the number of contracts of the legs of a spread, straddle, or combination order may differ by a permissible ratio [for the equivalent number of contracts and for the purpose of executing a particular investment strategy]. The permissible ratio for this purpose is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).

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 Phlx 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 Phlx has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. **Purpose**

The purpose of the proposed rule change is to amend the definition of “Complex Trade” in the Exchange’s rules that relate to the Linkage Plan. For Linkage purposes,
Exchange Rule 1083(c) currently defines a “Complex Trade” as a trade reflecting the execution of an order in an options series in conjunction with one or more other orders in different series in the same underlying security for the equivalent number of contracts.

Under the proposal, a “Complex Trade” includes a spread, straddle, or combination order where the number of contracts on the legs of the spread, straddle, or combination order differs by any ratio equal to or greater than one-to-three and less than or equal to three-to-one. A Complex Trade is exempt from trade-through liability.\(^5\)

The Exchange notes that its current rules provide that the components of spread, straddle and combination orders must generally offset one another on a one-for-one basis,\(^6\) and that priority concerning ratio and other types of spreads currently applies only to foreign currency options.\(^7\) In order to make those rules and instant proposal consistent, the Exchange has filed a separate proposed rule change to permit such order types on other than a one-for-one basis, and to establish priority for such orders in all options traded on the Exchange.\(^8\)

This proposal would adopt the same definition of “Complex Trade” as that on other options exchanges.\(^9\)

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5 See Exchange Rule 1085(b)(7).

6 See Exchange Rules 1066(f) and (g).

7 See Exchange Rules 1033(f), (g) and (h).

8 See SR-Phlx-2006-91.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\textsuperscript{10} in general, and furthers the objectives of Section 6(b)(5) of the Act\textsuperscript{11} 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 establishing a uniform definition of “Complex Trade” for purposes of the Linkage Plan.

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

Because the foregoing rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

\textsuperscript{10} 15 U.S.C. 78f(b).

\textsuperscript{11} 15 U.S.C. 78f(b)(5).
A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange provided such notice on January 30, 2007.

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-2007-09 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2007-09. 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
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
inspection and copying in the Commission’s Public Reference Room. Copies of the
filing also will be available for inspection and copying at the principal office of the Phlx.
All comments received will be posted without change; the Commission does not edit
personal identifying information from submissions. You should submit only information
that you wish to make available publicly. All submissions should refer to File Number
SR-Phlx-2007-09 and should be submitted on or before [insert date 21 days from
publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated
authority. ¹²

Nancy M. Morris
Secretary