Proposed Rule Change by Philadelphia Stock Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial Amendment Withdrawal
✓ [ ] [ ]

Section 19(b)(2) Section 19(b)(3)(A) Section 19(b)(3)(B)
✓ [ ] [ ]

Rule

Pilot Extension of Time Period for Commission Action Date Expires
[ ] [ ]

19b-4(f)(1) 19b-4(f)(4)
19b-4(f)(2) 19b-4(f)(5)
19b-4(f)(3) 19b-4(f)(6)

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

The Exchange proposes to file a proposed rule change relating to 100 share away markets in non-Nasdaq Securities.

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 John Last Name Dayton
Title Director and Counsel
E-mail john.dayton@phlx.com
Telephone (215) 496-5162 Fax [ ]

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 02/20/2007
By John Dayton
(Please Sign)
Director and Counsel

(Date)

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.

John Dayton, john.dayton@phlx.com
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 modify XLE, Phlx’s equity trading system, so as to prevent XLE from trading through 100 share away quotations in non-Nasdaq Securities. In addition, XLE will be modified to route to 100 share away quotations in non-Nasdaq Securities. Accordingly, Phlx Rule 1(cc)(3) will be modified to include 100 share away quotations in the definition of Protected Bids, Offers and Quotations for non-Nasdaq Securities before the Trading Phase Date.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the amended Phlx Rule 1(cc) is set forth below:

Underlining indicates additions; brackets indicate deletions

**Rule 1. Definitions**

The terms defined herein shall have the meanings specified herein for all purposes of Rules of the Board of Governors and of rules and regulations of Standing Committees of the Exchange, unless the context of a rule or regulation requires otherwise.

(a)-(bb) No Change

**Protected Bid, Offer or Quotation**

(cc) The terms "Protected Bid, Offer or Quotation" shall:

(1)-(2) No Change

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(3) mean, before Rule 611 of Regulation NMS is operative on the Exchange, for securities other than Nasdaq Global Market and Nasdaq Capital Market Securities, the bids, offers or quotations as required by the ITS Plan (as long as such Plan is in effect) and related Exchange rules (except that a Protected Bid, Offer or Quotation shall include a bid, offer or quotation of 100 shares) or as otherwise provided in any relief granted therefrom by the Commission.

(dd)-(oo) No Change

2. Procedures of the Self-Regulatory Organization

The Executive Committee, pursuant to authority delegated to it by the Board of the Exchange, approved the proposal for filing with the Securities and Exchange Commission ("SEC" or "Commission") on June 26, 2006 and July 31, 2006.

Questions and comments on the proposed rule change may be directed to John Dayton, Director and Counsel, at (215) 496-5162, 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 reflect the impending elimination of the Intermarket Trading System ("ITS") Plan in favor of the Trading Phase Date of Regulation NMS on March 5, 2007 by protecting additional away quotations in XLE. This would be accomplished by modifying XLE to consider 100 share bids, offer and quotations in non-Nasdaq Securities in other markets as Protected Bids, Offers and Quotations beginning on February 26, 2007. Therefore, XLE would route to 100 share away quotations in non-Nasdaq Securities and would not trade-through or quote through such quotations unless simultaneously routing to those quotations, pursuant to Phlx Rules.
Currently, XLE trades and quotes through 100 share away quotations in non-Nasdaq Securities. Additionally, XLE does not route to 100 share away quotations in non-Nasdaq Securities. This is because in the ITS Plan, which applies to non-Nasdaq Securities, and the Phlx Rules adopted pursuant to the ITS Plan, provide an exemption from trade-through and from locking and crossing protection for 100 shares bids and offer of away markets. In contrast, commencing with the Trading Phase Date of Regulation NMS, which is currently March 5, 2007, the exemption for 100 share away quotation in the ITS Plan will not be available to Phlx (or any other exchange) under the new Order Protection Rule, Rule 611.¹ XLE will be ready for the Trading Phase Date in that it will not, among other things, trade or quote through 100 share away markets. However, Phlx believes that it is appropriate to modify its trading system, XLE, on February 26, 2007, to take 100 share away markets in non-Nasdaq Securities into account for trading, quoting and routing because Phlx is currently rolling out XLE’s routing functionality in non-Nasdaq Securities.

Phlx has observed that other markets trading non-Nasdaq Securities pursuant to the ITS Plan have modified or adapted their systems to provide for very rapid or immediate execution of their displayed quotations, including quotations of 100 shares. Phlx believes that the system modification in this proposed rule change could provide more opportunities for executions of orders that XLE routes away pursuant to Phlx Rules, since XLE would begin routing to 100 share away quotations, in addition to larger quotations. Finally, Phlx would modify Phlx Rule 1(cc)(3) to clarify the change to XLE

¹ 17 CFR 242.611.
by stating that a Protected Bid, Offer or Quotation in non-Nasdaq Securities includes a 100 share bid, offer or quotation.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\textsuperscript{4} in general, and furthers the objectives of Section 6(b)(5) of the Act\textsuperscript{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 increasing the category of Protected Bids, Offers and Quotations in non-Nasdaq Securities to include 100 share away bids, offers and quotations.

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.

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.


\textsuperscript{5} 15 U.S.C. 78f(b)(5).
7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Because the foregoing proposed rule change does not:

(i) Significantly affect the protection of investors or the public interest;

(ii) Impose any significant burden on competition; and

(iii) Become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act\(^6\) and Rule 19b-4(f)(6) thereunder.\(^7\) The Phlx requests that the Commission waive the 30-day operative delay and make the proposed rule change operative on February 26, 2007. The Phlx believes that the earlier operative date is consistent with the protection of investors and the public interest because the proposed rule change should enhance protection of away quotations by including protections for 100 share away quotations in non-Nasdaq Securities and should allow XLE and its users to gain additional experience with the trading environment that will exist after the Trading Phase Date.

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

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

9. **Exhibits**

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

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Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ______ ; File No. SR-Phlx-2007-13)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to 100 Share
Away Markets in Non-Nasdaq Securities on XLE

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 modify XLE, Phlx’s equity trading system, so as to prevent XLE from
trading through 100 share away quotations in non-Nasdaq Securities. In addition, XLE
will be modified to route to 100 share away quotations in non-Nasdaq Securities.
Accordingly, Phlx Rule 1(cc)(3) will be modified to include 100 share away quotations in

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the definition of Protected Bids, Offers and Quotations for non-Nasdaq Securities before the Trading Phase Date.

The amended Phlx Rule 1(cc) is set forth below:

Underlining indicates additions; brackets indicate deletions

**Rule 1. Definitions**

The terms defined herein shall have the meanings specified herein for all purposes of Rules of the Board of Governors and of rules and regulations of Standing Committees of the Exchange, unless the context of a rule or regulation requires otherwise.

(a)-(bb) No Change

**Protected Bid, Offer or Quotation**

(cc) The terms "Protected Bid, Offer or Quotation" shall:

(1)-(2) No Change

(3) mean, before Rule 611 of Regulation NMS is operative on the Exchange, for securities other than Nasdaq Global Market and Nasdaq Capital Market Securities, the bids, offers or quotations as required by the ITS Plan (as long as such Plan is in effect) and related Exchange rules (except that a Protected Bid, Offer or Quotation shall include a bid, offer or quotation of 100 shares) or as otherwise provided in any relief granted therefrom by the Commission.

(dd)-(oo) No Change

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 reflect the impending elimination of the Intermarket Trading System ("ITS") Plan in favor of the Trading Phase Date of Regulation NMS on March 5, 2007 by protecting additional away quotations in XLE. This would be accomplished by modifying XLE to consider 100 share bids, offer and quotations in non-Nasdaq Securities in other markets as Protected Bids, Offers and Quotations beginning on February 26, 2007. Therefore, XLE would route to 100 share away quotations in non-Nasdaq Securities and would not trade-through or quote through such quotations unless simultaneously routing to those quotations, pursuant to Phlx Rules.

Currently, XLE trades and quotes through 100 share away quotations in non-Nasdaq Securities. Additionally, XLE does not route to 100 share away quotations in non-Nasdaq Securities. This is because in the ITS Plan, which applies to non-Nasdaq Securities, and the Phlx Rules adopted pursuant to the ITS Plan, provide an exemption from trade-through and from locking and crossing protection for 100 shares bids and offer of away markets. In contrast, commencing with the Trading Phase Date of Regulation NMS, which is currently March 5, 2007, the exemption for 100 share away quotation in the ITS Plan will not be available to Phlx (or any other exchange) under the new Order Protection Rule, Rule 611.\(^5\) XLE will be ready for the Trading Phase Date in that it will not, among other things, trade or quote through 100 share away markets.

\(^5\) 17 CFR 242.611.
However, Phlx believes that it is appropriate to modify its trading system, XLE, on February 26, 2007, to take 100 share away markets in non-Nasdaq Securities into account for trading, quoting and routing because Phlx is currently rolling out XLE’s routing functionality in non-Nasdaq Securities.

Phlx has observed that other markets trading non-Nasdaq Securities pursuant to the ITS Plan have modified or adapted their systems to provide for very rapid or immediate execution of their displayed quotations, including quotations of 100 shares. Phlx believes that the system modification in this proposed rule change could provide more opportunities for executions of orders that XLE routes away pursuant to Phlx Rules, since XLE would begin routing to 100 share away quotations, in addition to larger quotations. Finally, Phlx would modify Phlx Rule 1(cc)(3) to clarify the change to XLE by stating that a Protected Bid, Offer or Quotation in non-Nasdaq Securities includes a 100 share bid, offer or quotation.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^6\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^7\) 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 increasing the category of Protected Bids, Offers and Quotations in non-Nasdaq Securities to include 100 share away bids, offers and quotations.

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\(^7\) 15 U.S.C. 78f(b)(5).
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 proposed rule change does not:

(i) Significantly affect the protection of investors or the public interest;

(ii) Impose any significant burden on competition; and

(iii) Become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act\textsuperscript{8} and Rule 19b-4(f)(6) thereunder.\textsuperscript{9} The Phlx requests that the Commission waive the 30-day operative delay and make the proposed rule change operative on February 26, 2007. The Phlx believes that the earlier operative date is consistent with the protection of investors and the public interest because the proposed rule change should enhance protection of away quotations by including protections for 100 share away quotations in non-Nasdaq Securities and should allow XLE and its users to gain additional experience with the trading environment that will exist after the Trading Phase Date.


\textsuperscript{9} 17 CFR 240.19b-4(f)(6).
IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2007-13 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-2007-13. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for 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-2007-13 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.¹⁰

Nancy M. Morris
Secretary

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