Proposed Rule Change by Philadelphia Stock Exchange

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

### Initial Amendment Withdrawal

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<th>Section 19(b)(2)</th>
<th>Section 19(b)(3)(A)</th>
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<th>Pilot</th>
<th>Extension of Time Period</th>
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**Rule**

- [ ] 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).

**Proposed rule change relating to the deletion of the Exchange's Auto-Quote options pricing functionality.**

### 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**: 02/22/2007
- **By**: Richard S. Rudolph
  - **Title**: Vice President and Counsel

**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.
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.

<table>
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<tr>
<th>Exhibit 1 - Notice of Proposed Rule Change</th>
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<tr>
<td>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).</td>
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<th>Exhibit 5 - Proposed Rule Text</th>
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<td>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.</td>
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</table>

For complete Form 19b-4 instructions please refer to the EFFS website.
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 1080, Commentary .01, to delete references to “Auto-Quote” from the Exchange’s rules.

A notice of the proposed rule change for publication in the *Federal Register* is attached hereto as Exhibit 1. The text of the proposed rule change is set forth below.

Brackets indicate deletions; underlining indicates new text.

**Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)**

**Rule 1080.** (a) – (l) No change.

**Commentary:**

.01 (a) **Specialized Quote Feed.** [Automatic Quotation (Auto-Quote ) is the Exchange's electronic options pricing system, which enables specialists, SQTs, RSQTs or other ROTs to automatically monitor and instantly update quotations for equity option and index option contracts.](\footnote{15 U.S.C. 78s(b)(1).})

(b) (i) The Auto-Quote System includes three commonly used options pricing algorithms: the Black Scholes Option Pricing Model; the Cox, Ross and Rubenstein Binomial Option Pricing Model; and the Barone, Adesi and Whaley American Option Pricing Model. In addition, a] A specialist, RSQT or SQT may [separately employ other pricing models, by] establish[ing] an option pricing model via a specialized connection (in the case of equity option and index option contracts [, by-passing the Exchange's Auto-Quote System]), which is known as a specialized quote feed (“SQF”).

(ii) Specialists, SQTs and RSQTs individually determine which model to select per option and may change models during the trading day. Each pricing model requires the specialist, SQTs and RSQTs to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends.

\footnote{17 CFR 240.19b-4.}
(c) If options trading systems throttle quotations for at least three minutes, the Chairperson of the Board of Governors or his designee may, for capacity management purposes, mandate that the [Auto-Quote or] specialized quote feed be set to update quotations based on a certain minimum movement in the underlying security or the underlying foreign currency for: (i) all options; (ii) index options only; or (iii) certain specified options, taking into account certain factors that may include, but are not limited to, the price of the underlying security, volatility in the underlying security or the underlying foreign currency, or whether there has been any trading volume over the last two trading days. Such mandated minimum setting may continue for a period of 15 minutes, and may be continued every 15 minutes thereafter, provided that the Exchange's options trading systems are throttling quotations at the end of each such 15-minute period.

.02 - .06  No change.

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 February 7, 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 eliminate the outmoded and little-used options pricing functionality of the Exchange’s Automated Quotation System (“Auto-Quote”), which should reduce updating and modification costs which could ultimately be passed on to customers, as described more fully below.
Auto-Quote is the Exchange’s electronic options pricing system, which enables specialists, Streaming Quote Traders (“SQTs”)\(^3\) and Remote Streaming Quote Traders (“RSQTs”),\(^4\) to automatically monitor and instantly update and submit electronic quotations for equity option and index option contracts.\(^5\)

Currently, the wide majority of traders on the Exchange use their own proprietary options pricing systems, and access the Exchange’s electronic options trading system, Phlx XL, through a specialized connection, by-passing Auto-Quote. This specialized connection is known as a specialized quote feed (“SQF”).\(^6\) SQF users who do not use Auto-Quote submit proprietary electronic option quotations via SQF. SQF users submit electronic option quotations through their own pricing models or through quotation vendors.

In July, 2004, the Exchange implemented its fully electronic trading system for options, Phlx XL.\(^7\) At that time, vendor options pricing systems used by Exchange members often were not technologically capable of providing full options pricing services to Exchange members. Consequently, many members used Auto-Quote instead of vendor option pricing systems. Since that time, vendor options pricing systems have

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\(^3\) An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit options quotations electronically through AUTOM in eligible options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. See Exchange Rule 1014(b)(ii)(A).

\(^4\) An RSQT is a ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Exchange Rule 1014(b)(ii)(B).

\(^5\) See Exchange Rule 1080, Commentary .01(a).

\(^6\) See Exchange Rule 1080, Commentary .01(b).

been upgraded to address shortcomings that existed previously. As a result, very few options traders still use Auto-Quote on the Exchange. Such options traders have received written notification by way of Exchange circular of the Exchange’s intention to eliminate the Auto-Quote options pricing functionality from its options trading systems and will make necessary arrangements with the appropriate vendors to price options and to access the Exchange’s trading systems via SQF.

Recent changes in options trading such as quoting and trading of options in pennies, increased quote traffic, and the automation of processing complex orders, to name a few, would mandate continual upgrades to the technological requirements to maintain Auto-Quote as a component of the Exchange’s options trading systems. The Exchange’s Financial Automation (“FA”) Department\(^8\) describes Auto-Quote as an older system that would require a large investment to update it to match existing industry and vendor functionality. The Exchange believes that such a large investment could result in increased fees that might eventually be passed on to customers, which is one result that the Exchange seeks to avoid by eliminating the Auto-Quote options pricing functionality from its options trading systems.

Therefore, because of the limited use of the Auto-Quote options pricing functionality on the exchange, together with the disproportionate expense the Exchange would incur to continually upgrade Auto-Quote to meet industry needs, the Exchange proposes to eliminate the Auto-Quote options pricing functionality from its options trading systems.

\(^8\) The Exchange’s Financial Automation Department is responsible for the design, development, implementation, testing and maintenance of the Exchange’s automated trading systems, surveillance systems, and back office systems, and for monitoring the quality of performance and operational readiness of such systems, in addition to user training and validation of user technology as it pertains to such users’ interface with the Exchange’s systems.
trading systems, and to delete all references to Auto-Quote from its rules. The Exchange’s systems will no longer incorporate the Auto-Quote options pricing functionality beginning March 19, 2007.

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act 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 enabling the Exchange to limit expenses relating to the under-used and antiquated Auto-Quote options pricing functionality.

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.

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

The foregoing proposed rule change effects a change in an existing order-entry or trading system of a self-regulatory organization that: (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 have the effect of limiting the access to or availability of the system. Therefore, it has become effective pursuant to Section 19(b)(3)(A)\(^\text{11}\) of the Act and Rule 19b-4(f)(5)\(^\text{12}\) thereunder.

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**


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SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2007-15)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. to Delete the Exchange’s Auto-Quote Options Pricing Functionality

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4² thereunder, notice is hereby given that on ______________________ 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 Act³ and Rule 19b-4 thereunder,⁴ proposes to amend Exchange Rule 1080, Commentary .01, to delete references to “Auto-Quote” from the Exchange’s rules.


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 eliminate the outmoded and little-used options pricing functionality of the Exchange’s Automated Quotation System (“Auto-Quote”), which should reduce updating and modification costs which could ultimately be passed on to customers, as described more fully below.

Auto-Quote is the Exchange’s electronic options pricing system, which enables specialists, Streaming Quote Traders (“SQTs”)5 and Remote Streaming Quote Traders (“RSQTs”),6 to automatically monitor and instantly update and submit electronic quotations for equity option and index option contracts.7

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5 An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit options quotations electronically through AUTOM in eligible options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. See Exchange Rule 1014(b)(ii)(A).

6 An RSQT is a ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Exchange Rule 1014(b)(ii)(B).

7 See Exchange Rule 1080, Commentary .01(a).
Currently, the wide majority of traders on the Exchange use their own proprietary options pricing systems, and access the Exchange’s electronic options trading system, Phlx XL, through a specialized connection, by-passing Auto-Quote. This specialized connection is known as a specialized quote feed (“SQF”). SQF users who do not use Auto-Quote submit proprietary electronic option quotations via SQF. SQF users submit electronic option quotations through their own pricing models or through quotation vendors.

In July, 2004, the Exchange implemented its fully electronic trading system for options, Phlx XL. At that time, vendor options pricing systems used by Exchange members often were not technologically capable of providing full options pricing services to Exchange members. Consequently, many members used Auto-Quote instead of vendor option pricing systems. Since that time, vendor options pricing systems have been upgraded to address shortcomings that existed previously. As a result, very few options traders still use Auto-Quote on the Exchange. Such options traders have received written notification by way of Exchange circular of the Exchange’s intention to eliminate the Auto-Quote options pricing functionality from its options trading systems and will make necessary arrangements with the appropriate vendors to price options and to access the Exchange’s trading systems via SQF.

Recent changes in options trading such as quoting and trading of options in pennies, increased quote traffic, and the automation of processing complex orders, to name a few, would mandate continual upgrades to the technological requirements to

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8 See Exchange Rule 1080, Commentary .01(b).

maintain Auto-Quote as a component of the Exchange’s options trading systems. The Exchange’s Financial Automation ("FA") Department\textsuperscript{10} describes Auto-Quote as an older system that would require a large investment to update it to match existing industry and vendor functionality. The Exchange believes that such a large investment could result in increased fees that might eventually be passed on to customers, which is one result that the Exchange seeks to avoid by eliminating the Auto-Quote options pricing functionality from its options trading systems.

Therefore, because of the limited use of the Auto-Quote options pricing functionality on the exchange, together with the disproportionate expense the Exchange would incur to continually upgrade Auto-Quote to meet industry needs, the Exchange proposes to eliminate the Auto-Quote options pricing functionality from its options trading systems, and to delete all references to Auto-Quote from its rules. The Exchange’s systems will no longer incorporate the Auto-Quote options pricing functionality beginning March 19, 2007.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\textsuperscript{11} in general, and furthers the objectives of Section 6(b)(5) of the Act\textsuperscript{12} 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

\textsuperscript{10}The Exchange’s Financial Automation Department is responsible for the design, development, implementation, testing and maintenance of the Exchange’s automated trading systems, surveillance systems, and back office systems, and for monitoring the quality of performance and operational readiness of such systems, in addition to user training and validation of user technology as it pertains to such users’ interface with the Exchange’s systems.

\textsuperscript{11}15 U.S.C. 78f(b).

\textsuperscript{12}15 U.S.C. 78f(b)(5).
market system, and, in general, to protect investors and the public interest, by enabling the Exchange to limit expenses relating to the under-used and antiquated Auto-Quote options pricing functionality.

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

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

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

No written comments were either solicited or received.

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

The foregoing proposed rule change effects a change in an existing order-entry or trading system of a self-regulatory organization that: (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 have the effect of limiting the access to or availability of the system. Therefore, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(5) thereunder.

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-2007-15 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-2007-15. 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-2007-15 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.\textsuperscript{15}

\textsuperscript{15} 17 CFR 200.30-3(a)(12).

Nancy M. Morris
Secretary