Proposed Rule Change by Philadelphia Stock Exchange

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

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Pilot
Extension of Time Period for Commission Action
Date Expires

Proposed rule change relating to the Exchange's automated opening system.

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 officer.

Date: 03/20/2007
By: Richard S. Rudolph
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.

Richard Rudolph,
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") and Rule 19b-4 thereunder, proposes to amend Exchange Rule 1017, Openings in Options, to provide for a delay in the automated opening of an option series for up to five seconds when the conditions for opening the option series have been satisfied, and following: (1) respecting equity options, the dissemination of an opening quote or trade in the primary market for the underlying security; or (2) respecting index options, following the dissemination of a quote or trade by the primary markets for underlying securities constituting 100% of the index value.

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.

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**Openings In Options**

**Rule 1017.** (a) No change.

(b) The system will calculate an Anticipated Opening Price ("AOP") and Anticipated Opening Size ("AOS") in equity options when a quote or trade has been disseminated by the primary market for the underlying security, or, in the case of index options, securities, and under the conditions set forth below. The specialist assigned in the particular option must enter opening quotes not later than one minute following the dissemination of a quote or trade by the primary market for the underlying security or, in the case of index options, following the dissemination of a quote or trade by the primary markets for underlying securities constituting 100% of the index value. The system will calculate an AOP and AOS in U.S. dollar-settled FCO under the conditions specified below. The specialist assigned in the particular U.S. dollar-settled FCO must enter opening quotes not later than 30 seconds after the announced market opening. An AOP may only be calculated if: (i) the Exchange has received market orders, or the book is crossed (highest bid is higher than the lowest offer) or locked (highest bid equals the lowest offer); and (ii)

either (A) the specialist's quote has been submitted; (B) the quotes of at least two Phlx XL participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security in the case of equity options or, in the case of index options, within two minutes of the opening trades or quotes on the primary markets for underlying securities constituting 100% of the index value (or such shorter time as determined by the Options Committee and disseminated to membership via Exchange Circular), or within two minutes of market opening in the case of U.S. dollar-settled FCO (or such shorter time as determined by the FCO Committee and disseminated to membership via Exchange circular); or (C) if neither the specialist's quote nor the quotes of two Phlx XL participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security in the case of equity options or, in the case of index options, within two minutes of the opening trades or quotes on the primary markets for underlying securities constituting 100% of the index value (or such shorter time as determined by the Options Committee and disseminated to membership via Exchange circular), or within two minutes of market opening in the case of U.S. dollar-settled FCO (or such shorter time as determined by the FCO Committee and disseminated to membership via Exchange circular), one Phlx XL participant has submitted their quote.

(iii) When the conditions described in sub-paragraph (b)(i) and in sub-paragraph (b)(ii)(A), (B) or (C) above are satisfied, the system will open the series for trading within a time period not to exceed 5 seconds (as determined by the Exchange and disseminated to membership via Exchange circular) following: (A) respecting equity options, the dissemination of an opening quote or trade in the primary market for the underlying security; or (B) respecting index options, following the dissemination of a quote or trade by the primary markets for underlying securities constituting 100% of the index value.

A Phlx XL participant that submits a quote pursuant to this Rule 1017(b) in any series when the specialist's quote has not been submitted shall be required to submit continuous, two-sided quotes in such series until such time as the specialist submits his/her quote, after which the Phlx XL participant that submitted such quote shall be obligated to submit quotations pursuant to Rule 1014(b)(ii)(D).

In situations where an AOP may be calculated and there is an order/quote imbalance, the system will immediately send an imbalance notice indicating the imbalance side (buy or sell) and the AOP and AOS (an "Imbalance Notice") to Phlx XL participants provided that, in the case of equity options, the primary market for the underlying security has disseminated the opening quote or trade or, in the case of index options, provided that the primary markets for underlying securities constituting 100% of the index value have disseminated opening quotes or trades. Phlx XL participants that have not submitted opening quotes will then submit their opening quotes, and Phlx XL participants that have submitted opening quotes may submit revised opening quotes; thereafter the system will disseminate an updated Imbalance Notice every five seconds (or such shorter period as determined by the Options Committee and disseminated to membership via Exchange
Circular) until the series is open. If no imbalance exists, no Imbalance Notice will be sent, and the system will establish an opening price as described in paragraph (c) below.

(c) – (j) No change.

Commentary: 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 March 19, 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 help Exchange specialists, Streaming Quote Traders (“SQTs”), and Remote Streaming Quote Traders (“RSQTs”) to better manage their market risk by delaying the opening of an option series for a brief interval following the dissemination of an opening trade or quote in the underlying security, thus enabling them to price options series accurately on the opening.

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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 option 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).
Currently, the Exchange’s systems immediately open a series when the following conditions are satisfied:

(i) the Exchange has received market orders, or the book is crossed (highest bid is higher than the lowest offer) or locked (highest bid equals the lowest offer); and either:

(ii)   (A) the specialist's quote has been submitted;

       (B) the quotes of at least two Phlx XL participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security; or

       (C) if neither the specialist’s quote nor the quotes of two Phlx XL participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security, one Phlx XL participant has submitted their quote.

Once these conditions are satisfied, the system will automatically open the series immediately upon the dissemination of an opening trade or quote in the primary market for the underlying. The proposed rule change would provide that the system will delay opening the series for up to five seconds from the dissemination of an opening quote or trade in the primary market for the underlying security or, respecting index options, following the dissemination of a quote or trade by the primary markets for underlying securities constituting 100% of the index value. The time period would apply uniformly to all options traded on the Exchange.

Experience with the automated opening system has shown that specialists, SQTs, and RSQTs frequently do not have an adequate opportunity to adjust their pre-opening
quotes to accurately reflect the price in the underlying security when the underlying trade or quote is disseminated. The result is that the option series may be priced incorrectly at the opening, which places Exchange specialists, SQTs and RSQTs at market risk on the opening.

The up to five-second delay (which time period would be determined by the Exchange and disseminated to membership via Exchange circular) should enable Exchange specialists, SQTs and RSQTs to better manage this risk and to maintain fair and orderly markets by pricing options series accurately on the opening.

**b. Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^5\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^6\) 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 Exchange specialists, SQTs and RSQTs to better manage their risk, thus providing fair and orderly markets and correct options pricing on the opening of a series, all to the benefit of customers and the marketplace as a whole.

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.

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

No written comments were either solicited or received.

6. **Extension of Time Period for Commission Action**

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

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

The 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)\(^7\) of the Act and Rule 19b-4(f)(5)\(^8\) 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**

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

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SECURITIES AND EXCHANGE COMMISSION

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the
Exchange’s Automated Opening System

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 1017, Openings in Options, to provide for a delay in
the automated opening of an option series for up to five seconds when the conditions for
opening the option series have been satisfied, and following: (1) respecting equity
options, the dissemination of an opening quote or trade in the primary market for the
underlying security; or (2) respecting index options, following the dissemination of a

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quote or trade by the primary markets for underlying securities constituting 100% of the index value.


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 help Exchange specialists, Streaming Quote Traders (“SQTs”), and Remote Streaming Quote Traders (“RSQTs”) to better manage their market risk by delaying the opening of an option series for a brief interval following the dissemination of an opening trade or quote in the underlying security, thus enabling them to price options series accurately on the opening.

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6 An RSQT is an 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).
Currently, the Exchange’s systems immediately open a series when the following conditions are satisfied:

(i) the Exchange has received market orders, or the book is crossed (highest bid is higher than the lowest offer) or locked (highest bid equals the lowest offer); and either:

(ii) (A) the specialist's quote has been submitted;

(B) the quotes of at least two Phlx XL participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security; or

(C) if neither the specialist’s quote nor the quotes of two Phlx XL participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security, one Phlx XL participant has submitted their quote.

Once these conditions are satisfied, the system will automatically open the series immediately upon the dissemination of an opening trade or quote in the primary market for the underlying. The proposed rule change would provide that the system will delay opening the series for up to five seconds from the dissemination of an opening quote or trade in the primary market for the underlying security or, respecting index options, following the dissemination of a quote or trade by the primary markets for underlying securities constituting 100% of the index value. The time period would apply uniformly to all options traded on the Exchange.

Experience with the automated opening system has shown that specialists, SQTs, and RSQTs frequently do not have an adequate opportunity to adjust their pre-opening
quotes to accurately reflect the price in the underlying security when the underlying trade or quote is disseminated. The result is that the option series may be priced incorrectly at the opening, which places Exchange specialists, SQTs and RSQTs at market risk on the opening.

The up to five-second delay (which time period would be determined by the Exchange and disseminated to membership via Exchange circular) should enable Exchange specialists, SQTs and RSQTs to better manage this risk and to maintain fair and orderly markets by pricing options series accurately on the opening.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^8\) 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 Exchange specialists, SQTs and RSQTs to better manage their risk, thus providing fair and orderly markets and correct options pricing on the opening of a series, all to the benefit of customers and the marketplace as a whole.

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.

\(^7\) 15 U.S.C. 78f(b).

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)\(^9\) of the Act and Rule 19b-4(f)(5)\(^10\) 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-2007-25 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.

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All submissions should refer to File Number SR-Phlx-2007-25. 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-2007-25 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.11

Nancy M. Morris
Secretary

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