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

☑ 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 standardization of certain rules relating to equity, ETF and index options.

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 03/21/2007

By Richard S. Rudolph

Vice President and Counsel

(Note)

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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,
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.

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).

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.

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.

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.

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.
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 Rules 1014(c)(i)(A), Quote Spread Parameters (Bid/Ask Differentials), and 1014(g)(i)(B), Purchase or sale priority for orders of 100 contracts or more, in order to standardize the rules such that they would apply equally to options on equities, Exchange-Traded Fund ("ETF") Shares and index options.

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

Obligations and Restrictions Applicable to Specialists and Registered Options Traders

Rule 1014. (a) – (b) No change.

(c) * * * * *

(i) Options on Equities (including Exchange-Traded Fund Shares), Index Options, and U.S. dollar-settled Foreign Currency Options.

(A)(1) Quote Spread Parameters (Bid/Ask Differentials)—

(a) Options on [E] equities and index options [B] bidding and/or offering so as to create differences of no more than $.25 between the bid and the offer for each option contract for which the prevailing bid is less than $2; no more than $.40 where the prevailing bid is $2 or more but less than $5; no more than $.50 where the prevailing bid is $5 or more but less than $10; no more than $.80 where the prevailing bid is $10 or more but less than $20; and no more than $1 where the prevailing bid is $20 or more, provided that the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum


increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(b) No change

(2) Streaming Quote Options.

(a) Streaming Quote Options on equities (including Exchange-Traded Fund Shares), and on index options trading on Phlx XL may be quoted electronically with a difference not to exceed $5 between the bid and offer regardless of the price of the bid. The $5 bid/ask differentials only apply to Streaming Quote Options trading on Phlx XL and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (c)(i)(A)(1) above shall apply during opening rotation). Quotations provided in open outcry in Streaming Quote Options may not be made with $5 bid/ask differentials and instead must comply with the legal bid/ask differential requirements described in sub-paragraph (c)(i)(A)(1) above and not in this sub-paragraph (c)(i)(A)(2).

(b) No change.

(B) No change.

(ii) No change.

(d) – (f) No change.

(g) Equity Option, Index Option and U.S. dollar-settled Foreign Currency Option Priority and Parity.

(i)(A) No change.

(B) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales).

When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer.
The Options Committee may increase the “minimum qualifying order size” above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made via an Exchange circular. This paragraph is subject to a pilot scheduled to expire June 30, 2007, and shall only apply to transactions [in equity options (including options overlying Exchange Traded Fund Shares (“ETFs”)) and only to such transactions] that are effected in open outcry.

(ii) – (viii) 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 17, 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 above-mentioned rules so that they would apply equally to options on equities, Exchange-Traded Fund (“ETF”) Shares and index options.

Currently, Exchange rules concerning bid/ask differentials and split-price priority in open outcry apply either exclusively to equity and ETF options, or apply differently to equity and ETF options versus index options. In order to standardize the applicability of the Exchange’s rules to all options traded on the Exchange, the following rule changes are proposed:
Bid/Ask Differentials

Exchange Rule 1014(c)(i)(A) currently includes only language concerning “equity” options. In order to clarify the applicability of the rule to all options traded on the Exchange, including index options and options on ETFs, the proposal would specifically list index options and options on ETFs in the rule.

Purchase or Sale Priority for Orders of 100 Contracts or More

Exchange Rule 1014(g)(i)(B) currently affords priority in open outcry to a member that purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, at the next lower (higher) price, up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices. The rule currently applies only to transactions in equity options (including options overlying ETFs).

The proposed amendment would delete the limitation of applicability to equity and ETF options from the rule; the rule would therefore apply to all options traded on the Exchange, including index options.

The Exchange believes that the standardization of these rules should obviate any potential confusion among customers and Exchange members concerning their applicability.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^3\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^4\) in particular, in that

\(^3\) 15 U.S.C. 78f(b).

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 adopting standardized rules that
apply to all options traded on the Exchange.

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.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated
   Effectiveness Pursuant to Section 19(b)(2)
   Not applicable.

   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.
Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2007-27)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Standardization of Rules for Equity, Index and ETF Options

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 Rules 1014(c)(i)(A), Quote Spread Parameters (Bid/Ask Differentials), and 1014(g)(i)(B), Purchase or sale priority for orders of 100 contracts or more, in order to standardize the rules such that they would apply equally to options on equities, Exchange-Traded Fund ("ETF") Shares and index options.


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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 above-mentioned rules so that they would apply equally to options on equities, Exchange-Traded Fund (“ETF”) Shares and index options.

Currently, Exchange rules concerning bid/ask differentials and split-price priority in open outcry apply either exclusively to equity and ETF options, or apply differently to equity and ETF options versus index options. In order to standardize the applicability of the Exchange’s rules to all options traded on the Exchange, the following rule changes are proposed:

Bid/Ask Differentials

Exchange Rule 1014(c)(i)(A) currently includes only language concerning “equity” options. In order to clarify the applicability of the rule to all options traded on the Exchange, including index options and options on ETFs, the proposal would specifically list index options and options on ETFs in the rule.
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Exchange Rule 1014(g)(i)(B) currently affords priority in open outcry to a member that purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, at the next lower (higher) price, up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices. The rule currently applies only to transactions in equity options (including options overlying ETFs).

The proposed amendment would delete the limitation of applicability to equity and ETF options from the rule; the rule would therefore apply to all options traded on the Exchange, including index options.

The Exchange believes that the standardization of these rules should obviate any potential confusion among customers and Exchange members concerning their applicability.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁵ in general, and furthers the objectives of Section 6(b)(5) of the Act⁶ 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 adopting standardized rules that apply to all options traded on the Exchange.

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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**

Within 35 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 Phlx consents, the Commission shall: (a) by order approve 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
  

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2007-27 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-2007-27. 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-2007-27 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.\(^7\)

Nancy M. Morris  
Secretary

\(^7\) 17 CFR 200.30-3(a)(12).