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

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).

Proposed rule change relating to Ratio Spreads.

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 03/27/2007

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.
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 Rules 1033 and 1066 to define and permit ratio spreads in all options traded on the Exchange.

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.

**Bids And Offers --Premium**

**Rule 1033.** (a) – (f) No change.

(g) Ratio Spread Type Priority. [For options on foreign currencies, a] A spread order may consist of different numbers of contracts [(representing different amounts of underlying foreign currency),] so long as the number of contracts differ by a permissible ratio (a "Ratio Spread"). Similarly, [for options on foreign currencies,] the legs to a straddle or combination order may consist of different numbers of puts and calls[(representing different amounts of foreign currency),] so long as the number of contracts differ by a permissible ratio. For the purposes of this paragraph, a permissible ratio [of contracts] is any [of the following: one-to-one, one-to-two and two-to-three] ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

(h) – (i) No change.

**Certain Types of Orders Defined**

**Rule 1066.** (a) – (e) No change.

(f) Hedge Order. A hedge order is any spread type order (including a spread, straddle and combination order) for the same account as defined below:

---


(1) Spread Order. A spread order is an order to buy a stated number of option contracts and to sell [the same] a stated number of option contracts [.] in a different series of the same [class of] option[s] and may be bid for or offered on a total net debit or credit basis. [In the case of adjusted stock option contracts, a spread order need not consist of the same number of put and call contracts if such contracts both represent the same number of underlying shares or foreign currency at option, in a different series of the same class of options.]

(A) No change.

(2) – (3) No change.

(g) 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 November 13, 2006.

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 define and permit ratio spreads in options overlying equities, indexes, and Exchange Traded Fund Shares (“ETFs”), and to establish by rule permissible ratios for such orders.

Currently, Exchange Rule 1033, Bids and Offers – Premium, permits members to trade spread orders in which the respective legs consist of different numbers of contracts (ratio spreads) for foreign currency options only. The proposed rule change would
expand the rule to permit ratio spreads for all options traded on the Exchange by deleting the language from the rules limiting such orders to options overlying foreign currencies.

Specifically, the PHLX proposes to amend Rule 1033(g) to permit ratio spreads for spread, straddle, and combination orders, as defined in PHLX Rule 1066, in equity, ETF, and index options by deleting the current language that limits such orders to foreign currency options. The amended rule would permit spread, straddle, and combination orders in equity, ETF, and index options with a ratio that is equal to or greater than one-to-three and less than or equal to three-to-one.

Rule 1066 currently defines a “spread order” as an order to buy a stated number of option contracts and to sell the same number of option contracts in a different series of the same option. The proposed amendment would re-define the term “spread order” as an order to buy a stated number of option contracts and to sell a stated number of option contracts (which may be a different number of contracts) in a different series of the same option. The definition would also clarify that such an order may be bid for or offered on a total net debit or credit basis.

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 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,

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

in general, to protect investors and the public interest, by permitting ratio spreads in 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)**

   The proposed rule change is being designated by the Exchange as a “non-
controversial” rule pursuant to Section 19(b)(3)(A)\(^5\) of the Act and subparagraph (f)(6) of
Rule 19b-4 thereunder,\(^6\) because the proposed 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, provided that the

---


Exchange has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the filing of the proposed rule change.\(^7\)

Consequently, the rule is being filed for immediate effectiveness and the Exchange requests that the Commission waive the 30-day period for the proposal to become operative, so that the Exchange may have the same rules concerning ratio spreads as those currently effective on other exchanges, as cited below.

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

The proposed rule change is based on American Stock Exchange LLC ("Amex") Rule 950(e)(vii);\(^8\) Chicago Board Options Exchange, Inc. ("CBOE") Rule 6.53(n);\(^9\) International Securities Exchange, Inc. ("ISE") Rule 722(a)(6);\(^10\) and NYSEArca, Inc. Rule 6.62(k).\(^11\)

9. **Exhibits**

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

---

\(^7\) As required under Rule 19b-4(f)(6)(iii), the Exchange has provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to the filing date of this proposal.


SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2007-30)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Ratio
Spreads

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 1033 and 1066 to define and permit ratio spreads in
   all options traded on the Exchange. The text of the proposed rule change is set forth
   below.

   Brackets indicate deletions; underlining indicates new text.

   **Bids And Offers --Premium**

   **Rule 1033.** (a) – (f) No change.

---
(g) Ratio Spread Type Priority. [For options on foreign currencies, a] A spread order may consist of different numbers of contracts [(representing different amounts of underlying foreign currency),] so long as the number of contracts differ by a permissible ratio (a “Ratio Spread”). Similarly, [for options on foreign currencies,] the legs to a straddle or combination order may consist of different numbers of puts and calls[(representing different amounts of foreign currency),] so long as the number of contracts differ by a permissible ratio. For the purposes of this paragraph, a permissible ratio [of contracts] is any [of the following: one-to-one, one-to-two and two-to-three] ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

(h) – (i) No change.

Certain Types of Orders Defined

Rule 1066. (a) – (e) No change.

(f) Hedge Order. A hedge order is any spread type order (including a spread, straddle and combination order) for the same account as defined below:

(1) Spread Order. A spread order is an order to buy a stated number of option contracts and to sell [the same] a stated number of option contracts [,] in a different series of the same [class of] option[s] and may be bid for or offered on a total net debit or credit basis. [In the case of adjusted stock option contracts, a spread order need not consist of the same number of put and call contracts if such contracts both represent the same number of underlying shares or foreign currency at option, in a different series of the same class of options.]

(A) No change.

(2) – (3) No change.

(g) No change.

Commentary: 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 define and permit ratio spreads in
options overlying equities, indexes, and Exchange Traded Fund Shares (“ETFs”), and to
establish by rule permissible ratios for such orders.

Currently, Exchange Rule 1033, Bids and Offers – Premium, permits members to
trade spread orders in which the respective legs consist of different numbers of contracts
(ratio spreads) for foreign currency options only. The proposed rule change would
expand the rule to permit ratio spreads for all options traded on the Exchange by deleting
the language from the rules limiting such orders to options overlying foreign currencies.

Specifically, the PHLX proposes to amend Rule 1033(g) to permit ratio spreads
for spread, straddle, and combination orders, as defined in PHLX Rule 1066, in equity,
ETF, and index options by deleting the current language that limits such orders to foreign
currency options. The amended rule would permit spread, straddle, and combination
orders in equity, ETF, and index options with a ratio that is equal to or greater than one-
to-three and less than or equal to three-to-one.

Rule 1066 currently defines a “spread order” as an order to buy a stated number
of option contracts and to sell the same number of option contracts in a different series of
the same option. The proposed amendment would re-define the term “spread order” as
an order to buy a stated number of option contracts and to sell a stated number of option
contracts (which may be a different number of contracts) in a different series of the same
option. The definition would also clarify that such an order may be bid for or offered on a total net debit or credit basis.

2. 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 permitting ratio spreads in all options traded on the Exchange.

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 proposed rule change is being designated by the Exchange as a “non-controversial” rule pursuant to Section 19(b)(3)(A) of the Act and subparagraph (f)(6) of Rule 19b-4 thereunder, because the proposed 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, provided that the Exchange has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the filing of the proposed rule change.  

Consequently, the rule is being filed for immediate effectiveness and the Exchange requests that the Commission waive the 30-day period for the proposal to become operative, so that the Exchange may have the same rules concerning ratio spreads as those currently effective on other exchanges.

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-2007-30 on the subject line.

Paper comments:

---

9 As required under Rule 19b-4(f)(6)(iii), the Exchange has provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to the filing date of this proposal.
• 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-2007-30. 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-2007-30 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{10}

Nancy M. Morris
Secretary

\textsuperscript{10} 17 CFR 200.30-3(a)(12).