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).

Proposed rule change relating to the automatic sending of Linkage Principal Acting as Agent Orders.

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 05/22/2007

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.
If the self-regulatory organization is amending only part of the 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 its rules to reflect a system change that is intended to specify when orders that are not executed automatically on the Exchange would be routed through the Intermarket Option Linkage (“Linkage”).\(^3\) Specifically, the Exchange proposes to amend Exchange Rule 1080(c)(vi)(A)(1) to reduce the exposure period for marketable customer limit orders on the Exchange’s limit order book that are eventually sent automatically to away markets as Linkage Principal Acting as Agent (“P/A”) Orders\(^4\) when the Exchange’s disseminated market is not the National Best Bid or Offer (“NBBO”). The exposure period would be reduced from the current three seconds to one second.

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 set forth below.

Brackets indicate deletions; underlining indicates new text.

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


\(^4\) A P/A Order is an order for the principal account of a specialist (or equivalent entity on another Participant Exchange that is authorized to represent Public Customer orders), reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent. See Exchange Rule 1083(k).
Rule 1080. (a) – (b) No change.

(c) ******

(i) –(v) No change.

(vi) When the Exchange's disseminated quotation is not the NBBO (and, pursuant to Rule 1080(c)(iv)(E), inbound orders otherwise eligible for automatic execution are instead handled manually by the specialist):

(A) (1) Marketable public customer limit orders will be exposed to the trading crowd and to participants in Phlx XL for a period of [three] one second[s] following receipt. At the end of the [three] one-second exposure period: (a) if the Exchange's disseminated price is not the NBBO, any unexecuted contracts remaining in such an order will be automatically sent as a P/A Order through the Intermarket Option Linkage to any other exchange whose disseminated price is the NBBO, subject to the provisions contained in Rules 1083-1087; or (b) if the Exchange's disseminated price is the NBBO, any unexecuted contracts remaining in such an order will be automatically executed up to the Exchange's disseminated size. Any remaining contracts will be sent as P/A Order(s) to the exchange(s) displaying the NBBO.

(2) No change.

(B) No change.

(d) – (l) 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 May 16, 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 modernize the system to account for technological advances that have been made in the Exchange’s systems and in the industry since the original adoption of the rule, and to provide more efficient executions for customers with marketable limit orders on the Exchange’s limit order book.

Currently, under Exchange Rule 1080(c)(vi)(A)(1), when the Exchange’s disseminated price on the opposite side of the market is not the NBBO, marketable public customer limit orders are exposed to the trading crowd and to participants in Phlx XL for a period of three seconds following receipt. At the end of this three-second exposure period, if the Exchange’s disseminated price on the opposite side of the market is still not the NBBO, any unexecuted contracts remaining in such an order are automatically sent as a P/A Order through the Linkage to an exchange whose disseminated price on the opposite side of the market is the NBBO.

If at the end of the three-second exposure period the Exchange’s disseminated price on the opposite side of the market is the NBBO, any unexecuted contracts remaining in the marketable public customer limit order are automatically executed on

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the Exchange up to the Exchange's disseminated size. Any remaining contracts then are sent as P/A Order(s) to the exchange(s) displaying the NBBO. If the marketable public customer limit order is canceled during the three-second period, no P/A Order is sent and the marketable public customer limit order would not be executed.

The proposed system change would simply reduce the exposure period from three seconds to one second. The Exchange believes that the proposal to reduce the exposure period for marketable customer limit orders on the limit order book should provide more efficient and immediate executions. In addition, the Exchange believes that a one-second order exposure feature for inbound limit orders when the Exchange’s disseminated price on the opposite side of the market is not the NBBO, together with the automatic execution of unexecuted contracts up to the Exchange’s disseminated size when the Exchange's disseminated price becomes the NBBO and the automatic routing through Linkage of unexecuted contracts when the Exchange’s disseminated price is not the NBBO, will provide an effective means for avoiding trade-throughs.

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 providing more efficient

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executions for customers with marketable limit orders on the Exchange’s limit order book.

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 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.


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

Not applicable.

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-2007-38)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Automated Sending of Linkage Principal Acting as Agent Orders

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 its rules to reflect a system change that is intended to specify when orders that are not executed automatically on the Exchange would be routed through the Intermarket Option Linkage ("Linkage").\(^5\) Specifically, the Exchange proposes to amend Exchange Rule 1080(c)(vi)(A)(1) to reduce the exposure period for marketable


customer limit orders on the Exchange’s limit order book that are eventually sent automatically to away markets as Linkage Principal Acting as Agent (“P/A”) Orders when the Exchange’s disseminated market is not the National Best Bid or Offer (“NBBO”). The exposure period would be reduced from the current three seconds to one second. The text of the proposed rule change 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) – (b) No change.

(c) *****

(i) –(v) No change.

(vi) When the Exchange's disseminated quotation is not the NBBO (and, pursuant to Rule 1080(c)(iv)(E), inbound orders otherwise eligible for automatic execution are instead handled manually by the specialist):

(A) (1) Marketable public customer limit orders will be exposed to the trading crowd and to participants in Phlx XL for a period of [three] one second[s] following receipt. At the end of the [three] one-second exposure period: (a) if the Exchange's disseminated price is not the NBBO, any unexecuted contracts remaining in such an order will be automatically sent as a P/A Order through the Intermarket Option Linkage to any other exchange whose disseminated price is the NBBO, subject to the provisions contained in Rules 1083-1087; or (b) if the Exchange's disseminated price is the NBBO, any unexecuted contracts remaining in such an order will be automatically executed up to the Exchange's disseminated size. Any remaining contracts will be sent as P/A Order(s) to the exchange(s) displaying the NBBO.

(2) No change.

(B) No change.

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6 A P/A Order is an order for the principal account of a specialist (or equivalent entity on another Participant Exchange that is authorized to represent Public Customer orders), reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent. See Exchange Rule 1083(k).
(d) – (l) 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 modernize the system to account for technological advances that have been made in the Exchange’s systems and in the industry since the original adoption of the rule,\(^7\) and to provide more efficient executions for customers with marketable limit orders on the Exchange’s limit order book.

Currently, under Exchange Rule 1080(c)(vi)(A)(1), when the Exchange’s disseminated price on the opposite side of the market is not the NBBO, marketable public customer limit orders are exposed to the trading crowd and to participants in Phlx XL\(^8\) for a period of three seconds following receipt. At the end of this three-second exposure


period, if the Exchange’s disseminated price on the opposite side of the market is still not the NBBO, any unexecuted contracts remaining in such an order are automatically sent as a P/A Order through the Linkage to an exchange whose disseminated price on the opposite side of the market is the NBBO.

If at the end of the three-second exposure period the Exchange’s disseminated price on the opposite side of the market is the NBBO, any unexecuted contracts remaining in the marketable public customer limit order are automatically executed on the Exchange up to the Exchange’s disseminated size. Any remaining contracts then are sent as P/A Order(s) to the exchange(s) displaying the NBBO. If the marketable public customer limit order is canceled during the three-second period, no P/A Order is sent and the marketable public customer limit order would not be executed.

The proposed system change would simply reduce the exposure period from three seconds to one second. The Exchange believes that the proposal to reduce the exposure period for marketable customer limit orders on the limit order book should provide more efficient and immediate executions. In addition, the Exchange believes that a one-second order exposure feature for inbound limit orders when the Exchange’s disseminated price on the opposite side of the market is not the NBBO, together with the automatic execution of unexecuted contracts up to the Exchange’s disseminated size when the Exchange's disseminated price becomes the NBBO and the automatic routing through Linkage of unexecuted contracts when the Exchange’s disseminated price is not the NBBO, will provide an effective means for avoiding trade-throughs.
2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^9\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^10\) 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 providing more efficient executions for customers with marketable limit orders on the Exchange’s limit order book.

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

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the system. Therefore, it has become effective pursuant to Section 19(b)(3)(A)\textsuperscript{11} of the Act and Rule 19b-4(f)(5)\textsuperscript{12} 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
  
  \textcolor{blue}{(http://www.sec.gov/rules/sro.shtml); or}

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2007-38 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-2007-38. 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 \textcolor{blue}{(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

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\textsuperscript{12} 17 CFR 240.19b-4(f)(5).
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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-2007-38 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{13}

Nancy M. Morris
Secretary

\textsuperscript{13} 17 CFR 200.30-3(a)(12).