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).

Extending the specialist option transaction charge credit pilot program

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 Cynthia Last Name Hoekstra

Title Vice President

E-mail cynthia.hoekstra@phlx.com

Telephone (215) 496-5066 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 07/11/2007

By Cynthia Hoekstra Vice President

(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 extend for a one-year period, until July 31, 2008, its current pilot program that provides for an option transaction charge credit of $0.21 per contract for Exchange options specialist units\(^3\) that incur Phlx option transaction charges when a customer order is delivered to the limit order book via the Exchange’s Options Floor Broker Management System ("FBMS")\(^4\) and is then sent to an away market and executed via the Intermarket Option Linkage ("Linkage") under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage ("Plan")\(^5\) as a Principal Acting as Agent Order. ("P/A Order")\(^6\)

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\(^3\) The terms “specialist” and “specialist unit” are used interchangeably herein.

\(^4\) The FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. See Phlx Rule 1080, Commentary .06.


\(^6\) 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 Phlx Rule 1083(k)(i).
The pilot program in effect is currently scheduled to expire on July 31, 2007.\(^7\)

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and a copy of the applicable section of the Exchange’s Summary of Equity Option and RUT and RMN Charges is attached hereto as Exhibit 5.

2. Procedures of the Self-Regulatory Organization

The Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission ("SEC" or "Commission") on July 10, 2007.

Questions and comments on the proposed rule change may be directed to Cynthia Hoekstra, Vice President, at (215) 496-5066 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

Currently, the Exchange provides an option transaction charge credit of $0.21 per contract for Exchange options specialist units that incur Phlx option transaction charges when a customer order is delivered to the limit order book via FBMS and is then sent to an away market and executed via Linkage under the Plan as a P/A Order.

The purpose of this proposal is to continue to alleviate the potential economic burden of multiple transaction charges imposed on Exchange specialist units by establishing a credit for Exchange option transaction charges incurred by an Exchange specialist unit when a customer limit order placed on the limit order book by a Floor Broker[^8] results in an execution of a P/A Order that is sent to another exchange via Linkage. The Exchange believes that continuing to give an options transaction charge credit of $0.21 per contract should encourage the use of Linkage and should allow the Exchange to remain competitive with other exchanges with respect to the assessment of Linkage-related fees.[^9]

This proposal is to remain in effect as a pilot program until July 31, 2008.[^10]

b. **Statutory Basis**

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act[^11] in general, and furthers the objectives of Section 6(b)(4) of the Act[^12] in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

[^8]: A Floor Broker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the FBMS. See Exchange Rule 1063, Commentary .01. See also, Phlx Rule 1080, Commentary .02(b).


[^10]: This proposal is in connection with an existing pilot program for Linkage P and P/A Orders and is scheduled to be in effect for the same time period as the pilot program for Linkage P and P/A Orders. See footnote no. 7.


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 establishes or changes a due, fee, or other charge applicable only to a member pursuant to Section 19(b)(3)(A)(ii) of the Act\(^\text{13}\) and Rule 19b-4(f)(2)\(^\text{14}\) thereunder. Accordingly, the proposal will take effect upon filing with the Commission. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

The proposed rule change is similar to a fee credit program that is currently in


effect on the Chicago Board Options Exchange, Incorporated.\textsuperscript{15}

9. **Exhibits**

   1. Notice of proposed rule for publication in the Federal Register.
   5. Applicable section of the Exchange’s Summary of Equity Option and RUT and RMN Charges.

\textsuperscript{15} See Securities Exchange Act Release No. 53866 (May 25, 2006), 71 FR 31237 (June 1, 2007) (SR-CBOE-2006-44) (rebate of certain transaction fees to Designated Primary Market Makers related to the execution of outbound P and P/A orders); and Footnote 8 and Section 21 of the CBOE Fees Schedule.
SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2007-50)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Extending
the Specialist Option Transaction Charge Credit Pilot Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and
Rule 19b-4 thereunder,² 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 extend for a one-year period, until July 31, 2008, its current pilot program
that provides for an option transaction charge credit of $0.21 per contract for Exchange
options specialist units⁵ that incur Phlx option transaction charges when a customer order
is delivered to the limit order book via the Exchange’s Options Floor Broker


⁵ The terms “specialist” and “specialist unit” are used interchangeably herein.
Management System (“FBMS”) and is then sent to an away market and executed via the Intermarket Option Linkage (“Linkage”) under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (“Plan”) as a Principal Acting as Agent Order. ("P/A Order")

The pilot program in effect is currently scheduled to expire on July 31, 2007.


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

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6 The FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. See Phlx Rule 1080, Commentary .06.


8 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 Phlx Rule 1083(k)(i).

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

Currently, the Exchange provides an option transaction charge credit of $0.21 per contract for Exchange options specialist units that incur Phlx option transaction charges when a customer order is delivered to the limit order book via FBMS and is then sent to an away market and executed via Linkage under the Plan as a P/A Order.

The purpose of this proposal is to continue to alleviate the potential economic burden of multiple transaction charges imposed on Exchange specialist units by establishing a credit for Exchange option transaction charges incurred by an Exchange specialist unit when a customer limit order placed on the limit order book by a Floor Broker\(^{10}\) results in an execution of a P/A Order that is sent to another exchange via Linkage. The Exchange believes that continuing to give an options transaction charge credit of $0.21 per contract should encourage the use of Linkage and should allow the Exchange to remain competitive with other exchanges with respect to the assessment of Linkage-related fees.\(^{11}\)

\(^{10}\) A Floor Broker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the FBMS. See Exchange Rule 1063, Commentary .01. See also, Phlx Rule 1080, Commentary .02(b).

This proposal is to remain in effect as a pilot program until July 31, 2008.\textsuperscript{12}

2. **Statutory Basis**

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\textsuperscript{13} in general, and furthers the objectives of Section 6(b)(4) of the Act\textsuperscript{14} in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

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 rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act\textsuperscript{15} and paragraph (f)(2) of Rule 19b-4\textsuperscript{16} thereunder. At any time

\textsuperscript{12} This proposal is in connection with an existing pilot program for Linkage P and P/A Orders and is scheduled to be in effect for the same time period as the pilot program for Linkage P and P/A Orders. See footnote no. 9.

\textsuperscript{13} 15 U.S.C. 78f(b).


within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2007-50 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-2007-50. 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-2007-50 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.17

Nancy M. Morris
Secretary

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**NEW TEXT UNDERLINED; DELETED TEXT BRACKETED.**

**SUMMARY OF EQUITY OPTION AND RUT AND RMN CHARGES (p. 1/6)**

#### OPTION COMPARISON CHARGE**

- **Registered Option Trader**: $0.03 per contract
- **Firm / Proprietary**: $0.04 per contract
- Customer Executions, Broker-Dealer Orders: No charge

#### OPTION TRANSACTION CHARGE**

<table>
<thead>
<tr>
<th>Description</th>
<th>Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Executions</td>
<td>No charge</td>
</tr>
<tr>
<td><strong>Firm / Proprietary</strong></td>
<td>$0.20 per contract</td>
</tr>
<tr>
<td><strong>Firm / Proprietary Facilitation</strong></td>
<td>$0.10 per contract</td>
</tr>
<tr>
<td><strong>Registered Option Trader (on-floor)</strong></td>
<td>$0.19 per contract</td>
</tr>
<tr>
<td><strong>Specialist</strong></td>
<td>$0.21 per contract</td>
</tr>
<tr>
<td><strong>Broker/Dealer</strong> (AUTOM-delivered)</td>
<td>$0.45 per contract</td>
</tr>
<tr>
<td><strong>Broker/Dealer</strong> (non-AUTOM-delivered)</td>
<td>$0.25 per contract</td>
</tr>
</tbody>
</table>

**When contra-party to non-AUTOM delivered customer orders, ROT transaction and comparison charges and Specialist transaction charges will not be assessed on additional qualifying transactions on option contracts that number greater than 14,000, calculated per day: (1) per equity option overlying the same underlying security; (2) per RUT option; and (3) per RMN option. A per contract side license fee will be imposed after the 14,000 cap is met in connection with certain products that carry license fees. For a complete list of these product symbols and applicable license fees, see the $60,000 Firm Related Equity Option and Index Option Cap Fee Schedule.

**+ Subject to a maximum fee of $60,000, except for certain license fees which are assessed per contract side – see $60,000 “Firm Related” Equity Option and Index Option Cap.

**ROTs are eligible for a $.08/contract side rebate and specialists are eligible for a $.07/contract side rebate for trades occurring as part of a dividend, merger or short stock interest strategy. The net transaction and comparison charges after the rebate is applied will be capped at $1,000 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class. Net equity option transaction and comparison charges for dividend, merger and short stock interest strategies combined will be further capped at $25,000 per member organization per month. A $0.05 per contract side license fee is imposed for dividend and short stock interest strategies in connection with certain products that carry license fees. For a complete list of these product symbols, see the $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.

**For the purpose of this Summary of Equity Option Charges, the Firm / Proprietary comparison or transaction charge applies to member organizations for orders for the proprietary account of any member or non-member broker-dealer that derives more than 35% of its annual, gross revenues from commissions and principal transactions with customer. Member organizations will be required to verify this amount to the Exchange by certifying that they have reached this threshold and by submitting a copy of their annual report, which was prepared in accordance with Generally Accepted Accounting Principles (“GAAP”). In the event that a firm has not been in business for one year, the most recent quarterly reports, prepared in accordance with GAAP, will be accepted.

**See footnote 1.

**For the purpose of this Summary of Equity Option Charges, this charge applies to members for transactions, received from other than the floor of the Exchange, for any account (i) in which the holder of beneficial interest is a member or non-member broker-dealer or (ii) in which the holder of beneficial interest is a person associated with or employed by a member or non-member broker-dealer. This includes transactions for the account of an ROT entered from off-floor.

**See footnote 3.