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 Date Expires

Proposed rule change relating to the maximum number of quoters permitted in an option issue.

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 08/14/2007
By Richard S. Rudolph
Name 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,
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 notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

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.
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 Commentary .02 of Rule 507, Application for Approval as an SQT or RSQT and Assignment in Options, to increase the maximum number of participants that may be assigned in a particular equity option at any one time.

The Exchange also proposes a technical amendment to Rule 507, Commentary .01, to re-insert language concerning assignment in options by “root symbol” that was inadvertently deleted in the original proposal relating to the Maximum Number of Quoters (“MNQ”) in Equity Options, as described more fully below.

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.

**Application for Approval as an SQT or RSQT and Assignment in Options**

**Rule 507.** (a) – (f) No change.

Commentary:

.01 [RESERVED] An applicant may request assignment by “root symbol,” such that an SQT or RSQT may be assigned in only certain series of an option. A root symbol is the

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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 options 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).
options trading mnemonic used for each option. The Exchange may list different root symbols as applied by the Options Clearing Corporation (“OCC”) to series overlying the same underlying security depending, without limitation, on the strike price of the series, the expiration of the series, the price of the underlying security, and/or mergers and acquisitions relating to the underlying security.

.02 Maximum Number of Quoters ("MNQ") in Equity Options. The term “MNQ” refers to the maximum number of participants that may be assigned in a particular equity option at any one time. The MNQ levels for options trading on the Exchange are as follows, based on the preceding month's national volumes:

(a) 2 for the 5% most actively traded options;
(b) 1 for the next 10% most actively traded options;
(c) 1 for all other options.

.03 - .05 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 July 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 permit additional participants to quote electronically in equity options listed for trading on the Exchange by increasing the MNQ in equity options trading on the Exchange.
In January, 2007, as one part of a larger overall program established to mitigate
electronic option quote traffic on the Exchange, the Exchange adopted Commentary .02
to Rule 507, Maximum Number of Quoters in Equity Options.\(^5\) This rule limits the
number of participants that may be assigned to a particular equity option at any one time
based upon each option’s monthly national volume.

Commentary .02 to Rule 507 currently sets forth tiered MNQ levels providing for
20 participants for the top 5% most actively traded options; 15 participants for next 10%
most actively traded options, and 10 market participants for all other options. The
ranking is based upon the preceding month’s national volumes.

The proposal would increase the MNQ levels by two (2) participants in each tier.
Specifically, the new MNQ levels would provide for increases from 20 to 22 participants
per option for the top 5% most actively traded options; from 15 to 17 participants per
option for the next 10% most actively traded options, and from 10 to 12 participants per
option for all other options.

Currently, the Exchange’s Options Allocation, Evaluation and Securities
Committee (“OAESC”)\(^6\) may increase the MNQ when exceptional circumstances
warrant. Proposed Commentary .04 to Rule 507 describes the events that may be
considered “exceptional” including substantial trading volume (whether actual or
expected), a major news event or corporate event. The Exchange may reduce the MNQ

Phlx-2006-81).

\(^6\) The Options Allocations Committee has jurisdiction over, among other things: the appointment of
specialists on the options and foreign currency options trading floors; allocation, retention and transfer of
privileges to deal in options on the trading floors; and administration of the 500 series of Phlx rules. See
Phlx By-Law Article X, Section 10-7.
following the cessation of the exceptional circumstances, but the Exchange must follow the procedures for decreases to the MNQ outlined in Commentary .03 of the rule. When relying on this provision, as in the instant proposal, the Exchange must submit a rule filing to the Commission pursuant to Section 19(b)(3)(A) of the Act.

Initially, the Exchange set the MNQ at a very conservative level to ensure there was ample capacity to support multiple participants quoting the same equity option. Since that time, the Exchange has experienced an increase in volume, particularly in options included in the top two MNQ levels. The Exchange believes that adding two additional positions to the top tier (i.e., options that represent the top 5% in national volume) should attract quality liquidity providers and should enable the Exchange to be flexible in assigning top tier options to such liquidity providers. The Exchange also believes that adding two new positions to the second and third tier should add to the Exchange’s liquidity by providing opportunities for additional ROTs to trade in such issues.7

After careful analysis, the Exchange believes it has the capacity to increase the MNQ as proposed. The Exchange believes that the effect of an increase in the MNQ fosters competition in that it increases the number of market participants that may quote electronically in a product. The Exchange will inform market participants of changes to the MNQ via Exchange circular.

Assignment by “Root Symbol”

In late December, 2006, the Commission approved the Exchange’s proposal to adopt Commentary .01 to Rule 507 to permit the Exchange to assign trading privileges to SQTs and RSQTs, upon their request, only in specific series of a particular option based

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7 The Exchange notes that there is substantial interest among ROTs in trading such issues.
on the “root symbol” of the series, instead of assigning trading privileges in all series of such option. Thereafter, the Exchange filed its MNQ proposal, reserving the numerical position for Commentary .01 and adding the MNQ language in the subsequent Commentaries. Because the MNQ proposal was approved after the “root symbol” proposal, the effect of marking commentary .01 “RESERVED” was to delete the “root symbol” language. The Exchange proposes herein to correct this inadvertent deletion by re-inserting the “root symbol” language into Commentary .01.

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 permitting more participants to quote electronically on the Exchange, fostering competition, and adding liquidity to the Exchange’s markets, which should benefit customers.

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 proposed rule change is designated by the Exchange as a “non-controversial” rule pursuant to Section 19(b)(3)(A)\(^{11}\) of the Act and subparagraph (f)(6) of Rule 19b-4 thereunder,\(^ {12}\) 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.\(^ {13}\) Consequently, the rule is being filed for immediate effectiveness.

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\(^{13}\) 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.
8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is based on Chicago Board Options Exchange, Inc. (“CBOE”) Rule 8.3A.\(^{14}\)

9. **Exhibits**


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Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to An Increase in the Maximum Number of Quoters Permitted in an Option

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4² 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 Act³ and Rule 19b-4 thereunder,⁴ proposes to amend Commentary .02 of Rule 507, Application for Approval as an SQT⁵ or RSQT⁶ and Assignment in Options, to increase the maximum number of participants that may be assigned in a particular equity option at any one time.

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⁵ An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit options 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).
The Exchange also proposes a technical amendment to Rule 507, Commentary .01, to re-insert language concerning assignment in options by “root symbol” that was inadvertently deleted in the original proposal relating to the Maximum Number of Quoters (“MNQ”) in Equity Options, as described more fully below.

The text of the proposed rule change is set forth below.

Brackets indicate deletions; underlining indicates new text

**Application for Approval as an SQT or RSQT and Assignment in Options**

**Rule 507.** (a) – (f) No change.

Commentary:

.01 [RESERVED] An applicant may request assignment by “root symbol,” such that an SQT or RSQT may be assigned in only certain series of an option. A root symbol is the options trading mnemonic used for each option. The Exchange may list different root symbols as applied by the Options Clearing Corporation (“OCC”) to series overlying the same underlying security depending, without limitation, on the strike price of the series, the expiration of the series, the price of the underlying security, and/or mergers and acquisitions relating to the underlying security.

.02 Maximum Number of Quoters ("MNQ") in Equity Options. The term “MNQ” refers to the maximum number of participants that may be assigned in a particular equity option at any one time. The MNQ levels for options trading on the Exchange are as follows, based on the preceding month's national volumes:

(a) 2[0] 2 for the 5% most actively traded options;

(b) 1[5] 7 for the next 10% most actively traded options;

(c) 1[0] 2 for all other options.

.03 - .05 No change.

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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).
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 permit additional participants to quote electronically in equity options listed for trading on the Exchange by increasing the MNQ in equity options trading on the Exchange.

In January, 2007, as one part of a larger overall program established to mitigate electronic option quote traffic on the Exchange, the Exchange adopted Commentary .02 to Rule 507, Maximum Number of Quoters in Equity Options. This rule limits the number of participants that may be assigned to a particular equity option at any one time based upon each option’s monthly national volume.

Commentary .02 to Rule 507 currently sets forth tiered MNQ levels providing for 20 participants for the top 5% most actively traded options; 15 participants for next 10% most actively traded options, and 10 market participants for all other options. The ranking is based upon the preceding month’s national volumes.

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The proposal would increase the MNQ levels by two (2) participants in each tier. Specifically, the new MNQ levels would provide for increases from 20 to 22 participants per option for the top 5% most actively traded options; from 15 to 17 participants per option for the next 10% most actively traded options, and from 10 to 12 participants per option for all other options.

Currently, the Exchange’s Options Allocation, Evaluation and Securities Committee (“OAESC”)\(^8\) may increase the MNQ when exceptional circumstances warrant. Proposed Commentary .04 to Rule 507 describes the events that may be considered “exceptional” including substantial trading volume (whether actual or expected), a major news event or corporate event. The Exchange may reduce the MNQ following the cessation of the exceptional circumstances, but the Exchange must follow the procedures for decreases to the MNQ outlined in Commentary .03 of the rule. When relying on this provision, as in the instant proposal, the Exchange must submit a rule filing to the Commission pursuant to Section 19(b)(3)(A) of the Act.

Initially, the Exchange set the MNQ at a very conservative level to ensure there was ample capacity to support multiple participants quoting the same equity option. Since that time, the Exchange has experienced an increase in volume, particularly in options included in the top two MNQ levels. The Exchange believes that adding two additional positions to the top tier (\textit{i.e.}, options that represent the top 5% in national volume) should attract quality liquidity providers and should enable the Exchange to be flexible in

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\(^8\) The Options Allocations Committee has jurisdiction over, among other things: the appointment of specialists on the options and foreign currency options trading floors; allocation, retention and transfer of privileges to deal in options on the trading floors; and administration of the 500 series of Phlx rules. See Phlx By-Law Article X, Section 10-7.
assigning top tier options to such liquidity providers. The Exchange also believes that adding two new positions to the second and third tier should add to the Exchange’s liquidity by providing opportunities for additional ROTs to trade in such issues.\(^9\)

After careful analysis, the Exchange believes it has the capacity to increase the MNQ as proposed. The Exchange believes that the effect of an increase in the MNQ fosters competition in that it increases the number of market participants that may quote electronically in a product. The Exchange will inform market participants of changes to the MNQ via Exchange circular.

**Assignment by “Root Symbol”**

In late December, 2006, the Commission approved the Exchange’s proposal to adopt Commentary .01 to Rule 507 to permit the Exchange to assign trading privileges to SQTs and RSQTs, upon their request, only in specific series of a particular option based on the “root symbol” of the series, instead of assigning trading privileges in all series of such option.\(^10\) Thereafter, the Exchange filed its MNQ proposal, reserving the numerical position for Commentary .01 and adding the MNQ language in the subsequent Commentaries. Because the MNQ proposal was approved after the “root symbol” proposal, the effect of marking commentary .01 “RESERVED” was to delete the “root symbol” language. The Exchange proposes herein to correct this inadvertent deletion by re-inserting the “root symbol” language into Commentary .01.

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\(^9\) The Exchange notes that there is substantial interest among ROTs in trading such issues.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^{11}\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^{12}\) 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 more participants to quote electronically on the Exchange, fostering competition, and adding liquidity to the Exchange’s markets, which should benefit customers.

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 designated by the Exchange as a “non-controversial” rule pursuant to Section 19(b)(3)(A)\(^{13}\) of the Act and subparagraph (f)(6) of Rule 19b-4 thereunder,\(^{14}\) 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;

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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.

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-2007-51 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-2007-51. 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

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15 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.
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-2007-51 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.\(^\text{16}\)

Nancy M. Morris
Secretary

\(^{16}\) 17 CFR 200.30-3(a)(12).