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 Linkage Principal Order access.

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 11/14/2007

By Richard S. Rudolph Vice President and Counsel

(Note)

(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.

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.
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 Rule 1084, Operation of the Linkage, to eliminate the current restriction on Principal ("P") Order\(^3\) access under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (the "Plan").\(^4\)

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.

**Operation of the Linkage**

**Rule 1084.** By subscribing to the Plan, the Exchange has agreed to comply with, and enforce compliance by its members with, the Plan. In this regard, the following shall apply:

(a) – (c) No change.

(d) Principal Orders.

(1) No change.

[(2) Receipt of Multiple Principal Orders. Once the Exchange provides an automatic execution of a Principal Order in a series of an Eligible Option Class (the "initial execution"), the Exchange may reject any Principal Order(s) in the same Eligible Option Class sent by the same Participant Exchange for 15 seconds after the initial execution unless: (a) there is a change of price in the Exchange's

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\(^3\) A P Order is an order for the principal account of an Eligible Market Maker and is not a P/A Order. See Exchange Rule 1083(k)(ii).

disseminated offer (bid) in the series of the Eligible Option Class in which there was the initial execution; and (b) such price continues to be the NBBO. After this 15 second period, and until the sooner of (y) one minute after the initial execution or (z) a change in the Exchange's disseminated bid (offer), the Exchange is not obligated to provide an automatic execution for any Principal Orders in the same Eligible Option Class received from the Participant Exchange that sent the order resulting in the initial execution, and thus may treat any such Principal Orders as being greater than the Firm Principal Quote Size.

(e) – (g) 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 September 21, 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 Exchange Rule 1084(d) of the Plan so as to eliminate the so-called “Class Gate” restriction on P Order Access through the Linkage.

Currently, Rule 1084(d)(2) provides that, once the Exchange provides an automatic execution of a P Order in a series of an Eligible Option Class5 (the “initial

5 An Eligible Option Class is defined as all option series overlying a security (as that term is defined in Section 3(a)(10) of the Exchange Act) or group of securities, including both put options and call options, which class is traded on the Exchange and at least one other Participant Exchange. See Exchange Rule 1083(f).
execution”), the Exchange may reject any Principal Order(s) in the same Eligible Option Class sent by the same Participant Exchange\(^6\) for 15 seconds after the initial execution unless: (a) there is a change of price in the Exchange's disseminated offer (bid) in the series of the Eligible Option Class in which there was the initial execution; and (b) such price continues to be the National Best Bid or Offer.

The rule also provides that, until the sooner of one minute after the initial execution or a change in the Exchange's disseminated bid (offer), the Exchange is not obligated to provide an automatic execution for any P Orders in the same Eligible Option Class received from the Participant Exchange that sent the order resulting in the initial execution.

At the time of the creation of the Linkage, various markets had restrictions on non-customer access to the automatic execution systems. Since then, all of the exchanges have removed those restrictions and allow access for orders on behalf of non-member market makers to their trading platforms, thus eliminating the need for a “Class Gate.”

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^8\) 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,

\(^6\) “Participant Exchange” means a registered national securities exchange that is a party to the Plan. See Exchange Rule 1083(o).

\(^7\) 15 U.S.C. 78f(b).

in general, to protect investors and the public interest, by eliminating the restriction on P
Order access to the Exchange’s markets.

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 Exchange requests accelerated effectiveness pursuant to Section 19(b)(2) of the
Act\(^9\) in order to amend its rules concurrently with other Participant Exchanges that have
submitted similar proposals.

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

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SECURITIES AND EXCHANGE COMMISSION
(Release No.         ; File No. SR-Phlx-2007-86)

Self-Regulatory Organizations; Notice of Filing and Accelerated Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Linkage Principal Order Access

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 Rule 1084, Operation of the Linkage, to eliminate the

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current restriction on Principal (“P”) Order\(^5\) access under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (the “Plan”).\(^6\)


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 Exchange Rule 1084(d) of the Plan so as to eliminate the so-called “Class Gate” restriction on P Order Access through the Linkage.

Currently, Rule 1084(d)(2) provides that, once the Exchange provides an automatic execution of a P Order in a series of an Eligible Option Class\(^7\) (the “initial

\(^5\) A P Order is an order for the principal account of an Eligible Market Maker and is not a P/A Order.  See Exchange Rule 1083(k)(ii).


\(^7\) An Eligible Option Class is defined as all option series overlying a security (as that term is defined in Section 3(a)(10) of the Exchange Act) or group of securities, including both put options and call options,
execution”), the Exchange may reject any Principal Order(s) in the same Eligible Option Class sent by the same Participant Exchange for 15 seconds after the initial execution unless: (a) there is a change of price in the Exchange's disseminated offer (bid) in the series of the Eligible Option Class in which there was the initial execution; and (b) such price continues to be the National Best Bid or Offer.

The rule also provides that, until the sooner of one minute after the initial execution or a change in the Exchange's disseminated bid (offer), the Exchange is not obligated to provide an automatic execution for any P Orders in the same Eligible Option Class received from the Participant Exchange that sent the order resulting in the initial execution.

At the time of the creation of the Linkage, various markets had restrictions on non-customer access to the automatic execution systems. Since then, all of the exchanges have removed those restrictions and allow access for orders on behalf of non-member market makers to their trading platforms, thus eliminating the need for a “Class Gate.”

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,

which class is traded on the Exchange and at least one other Participant Exchange. See Exchange Rule 1083(f).

8 “Participant Exchange” means a registered national securities exchange that is a party to the Plan. See Exchange Rule 1083(o).


in general, to protect investors and the public interest, by eliminating the restriction on P
Order access to the Exchange’s markets.

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 Exchange requests accelerated effectiveness pursuant to Section 19(b)(2) of the
Act\(^{11}\) in order to amend its rules concurrently with other Participant Exchanges that have
submitted similar proposals.

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-2007-86 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-2007-86. 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-2007-86 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{12}

Nancy M. Morris  
Secretary

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