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)

Pilot Extension of Time Period for Commission Action Date Expires

Proposed rule change relating to Linkage response times.

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 11/21/2007
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 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 1084(c) and (e), and Rule 1085(b)(2), to reduce from five to three seconds the amount of time a member must wait after sending an order through the Intermarket Options Linkage (“Linkage Order”)\(^3\) to a market before the member can trade through that market.

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.

**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) – (b) No change.

(c) P/A Orders.

(1) No change.

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\(^3\) A “Linkage Order” means an Immediate or Cancel order routed through the Linkage as permitted under the Plan. There are three types of Linkage Orders:

(i) “Principal Acting as Agent (“P/A”) Order,” which 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;

(ii) “Principal (“P”) Order,” which is an order for the principal account of an Eligible Market Maker and is not a P/A Order; and

(iii) “Satisfaction Order,” which is an order sent through the Linkage to notify a member of another Participant Exchange of a Trade-Through and to seek satisfaction of the liability arising from that Trade-Through.

See Exchange Rule 1083(k).
(2) Sending of P/A Orders for Sizes Larger than the Firm Customer Quote Size. If the size of a P/A Order is larger than the Firm Customer Quote Size, a specialist may send through the Linkage such P/A Order in one of two ways:

   (i) The specialist may send a P/A Order representing the entire Public Customer order. If a receiving Participant Exchange's disseminated price is equal to or better than the Reference Price when the P/A Order arrives at that market, that exchange will execute the P/A Order at its disseminated price for at least the Firm Customer Quote Size (an automatic execution is not required if the P/A Order is larger than the Firm Customer Quote Size). Within [5] 3 seconds of receipt of such order (or such other period as the Operating Committee of the Options Linkage Authority (“OLA”) may determine, as approved by the Securities and Exchange Commission (“Commission”)), the receiving Participant Exchange will inform the specialist of the amount of the order executed and the amount, if any, that was canceled.

   (ii) No change.

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(d) Principal Orders.

   (1) Sending of an Initial Principal Order. An Eligible Market Maker may send a Principal Order through the Linkage at a price equal to the NBBO. Subject to the next paragraph, if the Principal Order is not larger than the Firm Principal Quote Size, the receiving Participant Exchange will execute the order in its automatic execution system, if available, if its disseminated price is equal to or better than the price specified in the Principal Order when that order arrives at the receiving Participant Exchange. If the Principal Order is larger than the Firm Principal Quote Size, the receiving Participant will (a) execute the Principal Order at its disseminated price for at least the Firm Principal Quote Size and (b) within [5] 3 seconds of receipt of such order, reply to the sending Participant Exchange, informing such Participant Exchange of the amount of the order that was executed and the amount, if any, canceled. If the receiving Participant Exchange does not execute the Principal Order in full, it will move its quote to a price inferior to the Reference Price of the Principal Order.

   (2) No change.

(e) Responses to Linkage Orders.

   (1) Failure to Receive a Timely Response. A Member who does not receive a response to a P Order or a P/A Order within [5] 3 seconds of sending the order may reject any response received thereafter purporting to report an execution of all or part of that order. The Member so rejecting the response shall inform the Participant Exchange sending that response of the rejection within [5] 3 seconds of receipt of the response.
(2) Failure to Send a Timely Response. If a Member responds to a P Order or P/A Order more than \([5] \frac{3}{4}\) seconds after receipt of that order, and the Participant Exchange to whom the Member responded cancels such response, the Member shall cancel any trade resulting from such order and shall report the cancellation to the Option Price Reporting Authority (“OPRA”).

(f) Receipt of Linkage Orders. The Exchange will provide for the execution of P/A Orders and Principal Orders if its disseminated price is (i) equal to or better than the Reference Price, and (ii) equal to the then-current NBBO. If the size of a P/A Order or Principal Order is not larger than the Firm Customer Quote Size or Firm Principal Quote size, respectively, the Exchange will provide for the execution of the entire order, and shall execute such order in its automatic execution system if such order is eligible for automatic execution and that system is available. Subject to paragraph (c) above, if the size of a P/A Order or Principal Order is larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, or if the Linkage Order received is not eligible to be executed automatically via AUTO-X pursuant to Exchange Rule 1080(c)(iv), the specialist must address the order within \([5] \frac{3}{4}\) seconds to provide an execution for at least the Firm Customer Quote Size or Firm Principal Quote Size, respectively. If the order is not executed in full, the Exchange will move its disseminated quotation to a price inferior to the Reference Price.

(g) No change.

**Order Protection**

**Rule 1085.** (a) No change.

(b) Exceptions to Trade-Through Liability. The provisions of paragraph (a) pertaining to the satisfaction of Trade-Throughs shall not apply under the following circumstances:

(1) No change.

(2) the Member trades through the market of a Participant Exchange to which such Member had sent a P/A Order or Principal Order, and within \([5] \frac{3}{4}\) seconds of sending such order the receiving Participant Exchange had neither executed the order in full nor adjusted the quotation traded through to a price inferior to the Reference Price of the P/A Order or Principal Order;

(3) – (10) No change.

(c) No change.

(d) *****

(1) – (2) No change.
(3) The Exchange will not consider there to have been a Trade-Through if a Member executes a trade at a price inferior to the quotation being disseminated by an exchange that is not a Participant Exchange if the Member made a good faith effort to trade against the superior quotation of the non-Participant Exchange prior to trading through that quotation. A “good faith effort” to reach a non-Participant Exchange's quotation requires that a Member at least had sent an order that day to the non-Participant Exchange in the class of options in which there is a Trade-Through, at a time at which such non-Participant Exchange was not relieved of its obligation to be firm for its quotations pursuant to Rule 11 Ac1-1 under the Exchange Act, and such non-Participant Exchange neither executed that order nor moved its quotation to a price inferior to the price of the Member's order within [5] 3 seconds of receipt of that order.

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 November 20, 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 establish rules that account for technological advances since the initial implementation of the Linkage.

The Exchange proposes to reduce certain “turnaround times” in the Linkage from five seconds to three seconds. Specifically, under the proposal, if a member does not receive a response to its Linkage Order within three seconds, that member would be permitted to reject any response purporting to be an execution received thereafter. The member so rejecting the response would be required to inform the exchange sending that
response of the rejection within three seconds of receipt of the response. Such member would also be permitted to trade through the market that failed to respond within three seconds, and would be exempt from liability for the trade through.

Similarly, if an Exchange member responds to a Linkage Order more than three seconds after receiving that order, and the other exchange cancels that response, such Exchange member must cancel any purported trade resulting from that order and must report the cancellation to the Option Price Reporting Authority (“OPRA”).

The Exchange believes that the reduced turnaround times for responses to Linkage Orders should result in the speedy execution of orders and would not adversely affect the ability of members to make markets on their respective exchanges. This proposed rule change is submitted in conjunction with Amendment No. 25 to the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage.

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 establishing rules that decrease Linkage response times.

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4 “Trade-Through” means a transaction in an options series at a price that is inferior to the NBBO. See Exchange Rule 1083(t).


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\(^7\) in order to establish rules that are consistent with those of the other participants in the Linkage and to ensure that the rules are effective on or prior to the anticipated deployment date of December 10, 2007.

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-2007-88)

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

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 Exchange Rules 1084(c) and (e), and Rule 1085(b)(2), to reduce from
five to three seconds the amount of time a member must wait after sending an order
through the Intermarket Options Linkage (“Linkage Order”)⁵ to a market before the
member can trade through that market.

⁵ A “Linkage Order” means an Immediate or Cancel order routed through the Linkage as permitted under
the Plan. There are three types of Linkage Orders:

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 establish rules that account for technological advances since the initial implementation of the Linkage.

The Exchange proposes to reduce certain “turnaround times” in the Linkage from five seconds to three seconds. Specifically, under the proposal, if a member does not receive a response to its Linkage Order within three seconds, that member would be permitted to reject any response purporting to be an execution received thereafter. The member so rejecting the response would be required to inform the exchange sending that

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(i) “Principal Acting as Agent (“P/A”) Order,” which 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;
(ii) “Principal (“P”) Order,” which is an order for the principal account of an Eligible Market Maker and is not a P/A Order; and
(iii) “Satisfaction Order,” which is an order sent through the Linkage to notify a member of another Participant Exchange of a Trade-Through and to seek satisfaction of the liability arising from that Trade-Through.

See Exchange Rule 1083(k).
response of the rejection within three seconds of receipt of the response. Such member would also be permitted to trade through the market that failed to respond within three seconds, and would be exempt from liability for the trade through.

Similarly, if an Exchange member responds to a Linkage Order more than three seconds after receiving that order, and the other exchange cancels that response, such Exchange member must cancel any purported trade resulting from that order and must report the cancellation to the Option Price Reporting Authority (“OPRA”).

The Exchange believes that the reduced turnaround times for responses to Linkage Orders should result in the speedy execution of orders and would not adversely affect the ability of members to make markets on their respective exchanges. This proposed rule change is submitted in conjunction with Amendment No. 25 to the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage.

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 establishing rules that decrease Linkage response times.

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6 “Trade-Through” means a transaction in an options series at a price that is inferior to the NBBO. **See Exchange Rule 1083(t).**


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 in order to establish rules that are consistent with those of the other participants in the Linkage and to ensure that the rules are effective on or prior to the anticipated deployment date of December 10, 2007.

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-2007-88 on the subject line.

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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-2007-88. 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-2007-88 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.\(^\text{10}\)

Nancy M. Morris
Secretary

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