

MEMORANDUM

TO: Members, Member Organizations, Participants, Participant Organizations

FROM: Richard S. Rudolph, Vice President and Counsel
Legal Department

DATE: April 10, 2007

RE: Ratio Spreads
Rule 1033(g)
Rule 1066(f)(1)

The Exchange has filed, for **immediate effectiveness**, amendments to Exchange Rules 1033 and 1066 to define and permit ratio spreads in all options traded on the Exchange and to reflect current practices.

Previously, Exchange Rule 1033, Bids and Offers – Premium, permitted members to trade spread orders in which the respective legs consist of different numbers of contracts (ratio spreads) for foreign currency options only. The new rule expands the rule to permit ratio spreads for all options traded on the Exchange by deleting the language from the rules limiting such orders to options overlying foreign currencies.

Specifically, Rule 1033(g) now permits ratio spreads for spread, straddle, and combination orders, as defined in PHLX Rule 1066, in equity, ETF, and index options by deleting the current language that limits such orders to foreign currency options. The amended rule permits spread, straddle, and combination orders in equity, ETF, and index options **with a ratio that is equal to or greater than one-to-three and less than or equal to three-to-one. For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.**

Rule 1066 previously defined a “spread order” as an order to buy a stated number of option contracts and to sell *the same* number of option contracts in a different series of the same option. The new rule re-defines the term “spread order” as an order to buy a stated number of option contracts and to sell *a stated* number of option contracts (which may be a different number of contracts) in a different series of the same option. The definition also clarifies that such an order may be bid for or offered on a total net debit or credit basis.

The text of the new rule is set forth below. Questions concerning the rule may be addressed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074.

Rule Text

Brackets indicate deletions; underlining indicates new text.

Bids And Offers --Premium

Rule 1033. (a) – (f) No change.

(g) Ratio Spread Type Priority. [For options on foreign currencies, a] A spread order may consist of different numbers of contracts [(representing different amounts of underlying foreign currency),] so long as the number of contracts differ by a permissible ratio (a “Ratio Spread”). Similarly, [for options on foreign currencies,] the legs to a straddle or combination order may consist of different numbers of puts and calls[(representing different amounts of foreign currency),] so long as the number of contracts differ by a permissible ratio. For the purposes of this paragraph, a permissible ratio [of contracts] is any [of the following: one-to-one, one-to-two and two-to-three] ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

(h) – (i) No change.

Certain Types of Orders Defined

Rule 1066. (a) – (e) No change.

(f) Hedge Order. A hedge order is any spread type order (including a spread, straddle and combination order) for the same account as defined below:

(1) Spread Order. A spread order is an order to buy a stated number of option contracts and to sell [the same] a stated number of option contracts [,] in a different series of the same [class of] option[s] and may be bid for or offered on a total net debit or credit basis. [In the case of adjusted stock option contracts, a spread order need not consist of the same number of put and call contracts if such contracts both represent the same number of underlying shares or foreign currency at option, in a different series of the same class of options.]

(A) No change.

(2) – (3) No change.

(g) No change.

Commentary: No change.