

MEMORANDUM

TO: Members, Member Organizations, Participants, Participant Organizations

FROM: Richard S. Rudolph
Vice President and Counsel

DATE: December 7, 2007

RE: Rule Change
Rule 1084, Operation of the Linkage
Rule 1085, Order Protection
Reduced Linkage Response Times

Action Requested: The Securities and Exchange Commission (“SEC” or “Commission”) has **approved** amendments to Exchange Rules 1084, Operation of the Linkage, and 1085, Order Protection, to reduce the time period within which a participant in the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (the “Linkage Plan”) must respond to Linkage Orders, from five (5) seconds to three (3) seconds. The Commission has also approved a corresponding amendment to the Linkage Plan for a temporary period of 120 days.

The new rule reduces certain “turnaround times” under the Linkage Plan from 5 to 3 seconds, as recently approved by the Options Linkage Authority (“OLA”). Specifically, under the proposal, if a member does not receive a response to its Linkage Order within 3 seconds, that member is permitted to reject any response purporting to be an execution received thereafter. The member so rejecting the response is required to inform the exchange sending that response of the rejection within 3 seconds of receipt of the response. Such member is permitted to trade through¹ the market that failed to respond within 3 seconds, and is exempt from liability for the trade through.

Similarly, if an Exchange member responds to a Linkage Order more than 3 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”).

¹ “Trade-Through” means a transaction in an options series at a price that is inferior to the NBBO. See Exchange Rule 1083(t).

The reduced turnaround times are effective **December 10, 2007**. Financial Automation staff has indicated that the Exchange's systems will be reconfigured to reflect this reduction by that date.

The purpose of the proposed rule change is facilitate speedy executions of orders while not adversely affecting the ability of members to make markets on their exchanges. The text of the proposed rule change is set forth below. Questions concerning the rule may be addressed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074. Questions concerning the system may be addressed to Shelly Brown, Vice President, Derivatives Trading Systems Strategy, at (215) 496-5602.

Rule Text

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) – (b) No change.

(c) P/A Orders.

(1) No change.

(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] 3 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] 3 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] 3 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.