

MEMORANDUM

TO: Members and Member Organizations

FROM: Richard S. Rudolph
Vice President and Counsel

DATE: March 5, 2007

RE: SEC Approves Proposed Rule Change Concerning ROT Limit Orders
Rule 1080(b)(i)(B)
Rule 1082, Commentary .02 and .03

The Securities and Exchange Commission (“SEC” or “Commission”) has **approved** a proposed rule change by the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) that permits Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”) to enter Immediate or Cancel (“IOC”) orders for their own account(s) through an electronic interface with AUTOM with a size of one contract or greater.

The new rule permits non-SQT ROTs and specialists to place proprietary limit orders with a size of 10 contracts or greater onto the limit order book; and permits non-SQT ROTs and specialists to submit proprietary limit orders with a size of less than 10 contracts as IOC only.

Please refer to the table below for a description of the permitted order types by trader category:

Category	Permitted Order Types	Minimum Size	Duration
Specialist	GTC, day limit, IOC and simple cancel	1 Contract	1 through 9 Contracts – IOC only 10 or more contracts may be placed on the limit order book as day or GTC
Non-Streaming ROT	GTC, day limit, IOC and simple cancel	1 Contract	1 through 9 Contracts – IOC only

Non-Streaming ROT			10 or more contracts may be placed on the limit order book as day or GTC
SQT	IOC Only	1 contract	IOC only regardless of order size
RSQT	IOC Only	1 contract	IOC only regardless of order size

The approved rule change also amends Commentary .02 and .03 of Exchange Rule 1082 to reduce the one-second “counting period” from one second to ¼ of one second during which SQTs, RSQTs and/or specialists may eliminate locked or crossed markets caused by their electronic quotations.

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

Brackets indicate deletions; underlining indicates new text

Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)

Rule 1080. (a) No Change.

(b) Eligible Orders

(i) The following types of orders are eligible for entry into AUTOM:

(A) No Change.

(B) [On-floor o] Orders for the proprietary account(s) of SQTs, RSQTs and non-SQT ROTs and specialists via electronic interface with AUTOM may be entered, subject to the restrictions on order entry set forth in Commentary .04 of this Rule.

(1) The following types of orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of 10 contracts or greater are eligible for entry via electronic interface with AUTOM: GTC, day limit, IOC and simple cancel. Orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

(2) The following types of orders for the proprietary account(s) of SQTs and RSQTs are eligible for entry via electronic interface with AUTOM: IOC.

(C) No Change.

(ii) – (iii) No Change.

(c) – (1) No Change.

Commentary:

.01 - .03 No Change.

.04 ROT Limit Orders. [On-floor o] Orders for the proprietary accounts of SQTs, RSQTs and non-SQT ROTs may be entered for delivery through AUTOM, through the use of Exchange approved proprietary systems to interface with AUTOM (“interface”) [to be placed on the limit order book]. Such orders shall be for a minimum of one (1) [0] contract[s]. Orders for the proprietary account(s) of non-SQT ROTs with a size of less than 10 contracts shall be submitted as IOC only. Orders for the proprietary account(s) of SQTs and RSQTs shall be submitted as IOC only.

.05-.07 No Change.

Firm Quotations

Rule 1082. (a) – (d) No Change.

Commentary:

.01 No Change.

.02 Locked Markets. In the event that an SQT, RSQT, and/or specialist's electronically submitted quotations in Streaming Quote Options interact with the electronically submitted quotations of other SQTs, RSQTs and/or the specialist, resulting in the dissemination of a “locked” quotation (e.g., \$1.00 bid - 1.00 offer), the following shall occur:

(a) The Exchange will disseminate the locked market and both quotations will be deemed “firm” disseminated market quotations;

(b) A “counting period” of [one-] 1/4 of one second will begin during which SQTs, RSQTs and/or specialists whose quotations are locked may eliminate the locked market. Provided, however, that in accordance with subparagraph (a) above, such SQT, RSQT and/or specialist shall be obligated to execute orders at their

disseminated quotation. During the “counting period” SQTs and specialists located in the Crowd Area in which the option that is the subject of the locked market is traded will continue to be obligated to respond to Floor Brokers as set forth in Rule 1014, Commentary .05(c), and will continue to be obligated for one contract in open outcry to other SQTs, non-SQT ROTs, and specialists. If at the end of the [one-] 1/4 of one second counting period the quotations remain locked, the locked quotations will automatically execute against each other in accordance with the allocation algorithm set forth in Rule 1014(g)(vii).

The quotation that is locked may be executed by an order during the [one-] 1/4 of one second counting period.

.03 Crossed Markets. The Exchange will not disseminate an internally crossed market (e.g., \$1.10 bid, 1.00 offer). If an SQT, RSQT or specialist electronically submits a quotation in a Streaming Quote Option (“incoming quotation”) that would cross an existing quotation (“existing quotation”), the Exchange will: (i) change the incoming quotation such that it locks the existing quotation; (ii) send a notice to the SQT, RSQT or specialist that submitted the existing quotation indicating that its quotation was crossed; and (iii) send a notice to the specialist, SQT or RSQT that submitted the incoming quotation, indicating that its quotation crossed the existing quotation and was changed. Such a locked market shall be handled in accordance with Commentary .01 above. During the [one-] 1/4 of one second counting period, if the existing quotation is cancelled subsequent to the time the incoming quotation is changed, the incoming quotation will automatically be restored to its original terms.