

MEMORANDUM

TO: Members, Member Organizations, Participants, Participant Organizations

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

DATE: November 28, 2007

RE: Rule/System Change
Rapid Opening System
Rule 1017(c)

Effective December 6, 2007, the Exchange will deploy a modification to the Exchange's automated opening system that will include additional "tie-breakers" in the system to ensure that the Exchange's opening price in a particular option series is established at a single price when two or more opening prices would satisfy the requirement in Exchange Rule 1017(c) that such price be the price at which the maximum quantity of contracts will trade. The Exchange has filed with the Securities and Exchange Commission for immediate effectiveness to amend Rule 1017(c) to incorporate the new "tie-breakers."

Rule 1017(c) sets forth the methodology by which the Exchange's system establishes the opening price of a series. Generally, the opening price of a series is the price at which the maximum quantity of contracts will be traded. Frequently, however, there will be more than one price that will satisfy the "maximum quantity" test in determining the opening price of a series. Accordingly, Rule 1017(c) lists a number of "tie-breakers" used by the system to determine the actual opening price of a series.

Specifically, when the maximum quantity of contracts could be traded at two or more prices, the system establishes the opening price based on the following criteria, in order: (1) the price at which the greatest number of customer orders would be traded; (2) the price at which the maximum number of Phlx XL participants would trade; and (3) the price that is closest to the closing price from the previous trading session.

The Exchange has observed that the existing "tie-breakers" in Rule 1017(c) can still result in the situation where two or more prices could satisfy the maximum quantity criteria. Accordingly, the proposal would add another "tie-breaker" to be used in determining the opening price when two or more prices satisfy the maximum quantity criteria.

Rule 1017(c) would be amended to provide that, after all existing “tie-breakers” have been exhausted, should there continue to be two or more prices that satisfy the maximum quantity criteria, the opening price will be the mid-point of the highest possible price and lowest possible price that satisfy the maximum quantity criteria (rounded as needed to the side of the market with the greatest number of Phlx XL participants).

The text of the rule is attached. Questions concerning the rule may be directed to Rick Rudolph in the Legal Department at (215) 496-5074. Questions concerning the system may be addressed to Shelly Brown in the Financial Automation Department at (215) 496-5602.

Brackets indicate deletions; underlining indicates new text.

Openings In Options

Rule 1017. (a) – (b) No change.

(c)(i) The opening price of a series is the price at which the maximum quantity of contracts will be traded. Should two or more prices satisfy the maximum quantity criteria, the opening price will be the price at which the greatest number of customer orders will be traded. Should there continue to be two or more prices that satisfy the maximum quantity criteria, the opening price shall be the price at which the maximum number of Phlx XL participants will trade. Thereafter, should there continue to be two or more prices that satisfy the maximum quantity criteria, the opening price will be the price that is closest to the closing price from the previous trading session. Should there continue to be two or more prices that satisfy the maximum quantity criteria, the opening price will be the mid-point of the highest possible price and lowest possible price that satisfy the maximum quantity criteria (rounded as needed to the side of the market with the greatest number of Phlx XL participants). The system will give priority to market orders first (including limit orders that are treated as market orders as described in paragraph (i) below), then to resting limit orders at the opening price. One or more series of a given option may not open because of the conditions cited in paragraph (e) of this Rule.

(ii) – (iv) No change.

(d) – (j) No change.

Commentary: No change