

MEMORANDUM

TO: Members and Member Organizations

FROM: John Dayton

DATE: September 26, 2007

RE: Approval of Expanded Trade-Through Provisions for IOC Cross Orders on XLE

The Exchange has received approval from the Securities and Exchange Commission for a proposed rule change, SR-Phlx-2007-64, which provides for an expanded trade-through provision for IOC Cross Orders on XLE. Phlx accepts IOC Cross Orders on XLE during all three XLE trading sessions, from 8:00 a.m. until 6:00 p.m. An IOC Cross Order is a two-sided order that matches, immediately and automatically on XLE, the buy side and sell side identified in the order, unless the price of the order would impermissibly trade at or through other orders on XLE or at away markets. IOC Cross Orders may trade through the Protected NBBO in four different situations as described in Phlx Rule 185(c)(2)(D). These four situations correspond with either exceptions to or an exemption from Rule 611(a) of Regulation NMS, the Order Protection Rule.

This approved rule change added to Phlx Rule 185(c)(2)(D) another situation in which IOC Cross Orders may trade through the Protected NBBO. Phlx Rule 185(c)(2)(D)(v) allows IOC Cross Orders that are entered during the Pre Market or Post Market Sessions to trade through the Protected NBBO, however, as with all two-sided orders, IOC Cross Orders may not trade through other orders on the XLE book. The Pre Market and Post Market Sessions take place outside of the hours 9:30 a.m. to 4:00 p.m. The Order Protection Rule does not apply to trade throughs of the Protected NBBO outside of regular trading hours, which are 9:30 a.m. until 4:00 p.m. Therefore, the Order Protection Rule does not prohibit IOC Cross Orders from trading through the Protected NBBO during the Pre Market or Post Market Sessions on XLE. The rule text is attached.

Questions regarding the proposed rule change may be directed to John Dayton at (435) 783-6415. Questions regarding XLE functionality may be directed to the XLE Help Desk at (215) 496-5311 or 1-877-678-PHLX.

Rule Text

Underlining indicates additions; brackets indicate deletions

Rule 185. Orders and Order Execution

(a)-(c)(1) No Change

(c)(2) IOC Cross Order. A two-sided order that executes, in its entirety, at the specified price, provided that XLE will cancel an IOC Cross Order at the time of order entry if:

(A)-(C) No Change

(D) the specified price would cause an execution at a price that would trade-through the price of the Protected NBBO, unless:

(i) the Protected Bid is priced higher than the Protected Offer; [or]

(ii) the IOC Cross Order is marked by the XLE Participant entering the order as meeting the requirements of an intermarket sweep order in Reg NMS Rule 600(b)(30);[.]

(iii) the IOC Cross Order is marked as Benchmark; [or]

(iv) the IOC Cross Order is marked as a Qualified Contingent Trade;[.] or

(v) the IOC Cross Order is entered during the Pre Market Session or the Post Market Session.

(c)(3)-(h) No Change