

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55338; File No. SR-Phlx-2007-04)

February 23, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Listing LEAPS Pursuant to the \$2.50 Strike Price Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 21, 2007, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by Phlx. The Exchange has filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Phlx proposes to clarify that LEAPS⁵ can be listed at \$2.50 strike price intervals pursuant to the \$2.50 Strike Price Program set forth in Commentary .05 to Phlx Rule 1012 (Series of Options Open for Trading). There is no new rule text.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ LEAPS are Long-term Equity Anticipation Securities or long-term options series. See Phlx Rules 1079, 1012, and 1101A.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, Phlx included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposal is to clarify that LEAPS can be listed at \$2.50 strike price intervals pursuant to the \$2.50 Strike Price Program.

The current \$2.50 Strike Price Program is set forth in Commentary .05 to Phlx Rule 1012. The \$2.50 Strike Price Program permits the Exchange to list options with \$2.50 strike price intervals for selected options trading at strike prices greater than \$25 but less than \$75. In addition, each options exchange is permitted to list options with \$2.50 strike price intervals on any option class that another options exchange selects under the \$2.50 Strike Price Program.

Initially adopted in 1995 as a pilot program, the pilot \$2.50 Strike Price Program allowed options exchanges to list options with \$2.50 strike price intervals for options trading at strike prices greater than \$25 but less than \$50 on a total of up to 100 option classes.⁶ In 1998, the pilot program was permanently approved and expanded to allow the options exchanges to select

⁶ See Securities Exchange Act Release No. 35993 (July 19, 1995), 60 FR 38073 (July 25, 1995) (SR-Phlx-95-08, SR-Amex-95-12, SR-PSE-95-07, SR-CBOE-95-19, and SR-NYSE-95-12).

up to 200 option classes for the \$2.50 Strike Price Program.⁷ Of the 200 options classes eligible for the \$2.50 Strike Price Program, 46 have been allocated to Phlx.⁸ In 2005, the \$2.50 Strike Price Program was expanded to permit the listing of options with \$2.50 strike price intervals for options with strike prices between \$50 and \$75, provided that the \$2.50 strike price intervals are no more than \$10 from the closing price of the underlying stock in its primary market⁹ on the preceding day.¹⁰ With the expansion of the \$2.50 Strike Price Program to options with strike prices below \$75, for example, if an option class has been selected as part of the \$2.50 Strike Price Program, and the underlying stock closed at \$48.50 in its primary market, the Exchange may list options with strike prices of \$52.50 and \$57.50 on the next business day; and if an underlying security closed at \$54, the Exchange may list options with strike prices of \$52.50, \$57.50, and \$62.50 on the next business day. Moreover, an option class would remain in the \$2.50 Strike Price Program until the Exchange otherwise designates and sends a decertification notice to the Options Clearing Corporation.

The Exchange is hereby clarifying that it, like other options exchanges with the \$2.50 Strike Price Program, may list LEAPS at \$2.50 strike price intervals at all strike prices that are

⁷ See Securities Exchange Act Release No. 40662 (November 12, 1998), 63 FR 64297 (November 19, 1998) (SR-Amex-98-21, SR-CBOE-98-29, SR-PCX-98-31, and SR-Phlx-98-26).

⁸ The allocation is not changed by this proposed rule filing.

⁹ The term “primary market” is defined in Phlx Rule 1000 in respect of an underlying stock or Exchange-Traded Fund Share as the principal market in which the underlying stock or Exchange-Traded Fund Share is traded.

¹⁰ See Securities Exchange Act Release No. 52961 (December 15, 2005), 70 FR 76095 (December 22, 2005) (SR-Phlx-2005-77). See also Securities Exchange Act Release Nos. 52893 (December 5, 2005), 70 FR 73488 (December 12, 2005) (SR-Amex-2005-067); 52892 (December 5, 2005), 70 FR 73492 (December 12, 2005) (SR-CBOE-2005-39); 52960 (December 15, 2005), 70 FR 76090 (December 22, 2005) (SR-ISE-2005-59); and 52986 (December 20, 2005), 70 FR 76897 (December 28, 2005) (SR-PCX-2005-137).

available pursuant to the \$2.50 Strike Price Program. The Exchange believes that the \$2.50 Strike Price Program has benefited the marketplace by creating additional trading opportunities for customers in all options including LEAPS by affording such customers the ability to more closely tailor investment strategies to the precise movement of the underlying security. The availability of \$2.50 strike price intervals for LEAPS will likewise benefit the marketplace and is in conformity with current industry practice.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹¹ in general, and furthers the objective of Section 6(b)(5) of the Act¹² in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and the national market system.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3)

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

become operative for 30 days from the date of this filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6) thereunder.¹⁴

A proposed rule change filed under 19b-4(f)(6) normally may not become operative prior to 30 days after the date of filing.¹⁵ However, Rule 19b-4(f)(6)(iii)¹⁶ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and in the public interest so that it is clear that the Exchange has the immediate ability to list and trade LEAPS at \$2.50 strike price intervals at all strike prices that are available pursuant to the \$2.50 Strike Price Program. For this reason, the Commission designates the proposed rule change to be operative upon filing with the Commission.¹⁷

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the Act.

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6).

¹⁵ 17 CFR 240.19b-4(f)(6)(iii). In addition, Rule 19b-4(f)(6)(iii) requires that a self-regulatory organization submit to the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. Phlx has satisfied the five-day pre-filing requirement.

¹⁶ Id.

¹⁷ For purposes only of waiving the operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-Phlx-2007-04 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-Phlx-2007-04. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of Phlx. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All

submissions should refer to File No. SR-Phlx-2007-04 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Florence E. Harmon
Deputy Secretary

¹⁸ 17 CFR 200.30-3(a)(12).