

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55558; File No. SR-Phlx-2007-25)

March 29, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Exchange's Automated Opening System

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 March 20, 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, II, and III below, which Items have been substantially prepared by the Phlx. The Phlx has filed the proposed rule change as one effecting a change in an existing order-entry or trading system of a self-regulatory organization pursuant to Section 19(b)(3)(A)(ii) of the Act³ and Rule 19b-4(f)(5) thereunder,⁴ which renders the proposal 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

The Phlx proposes to amend Exchange Rule 1017, Openings in Options, to provide for a delay in the automated opening of an option series for up to five seconds when the conditions for opening the option series have been satisfied, and following: (1) respecting equity options, the dissemination of an opening quote or trade in the primary

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(5).

market for the underlying security; or (2) respecting index options, following the dissemination of a quote or trade by the primary markets for underlying securities constituting 100% of the index value. The text of the proposed rule change is available at Phlx, the Commission's Public Reference Room, and www.Phlx.com/exchange/phlx-rule-fil.html.

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

In its filing with the Commission, the 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 Phlx 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 proposed rule change is to help Exchange specialists, Streaming Quote Traders (“SQTs”),⁵ and Remote Streaming Quote Traders (“RSQTs”)⁶ to better manage their market risk by delaying the opening of an option series for a brief

⁵ An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. See Exchange Rule 1014(b)(ii)(A).

⁶ An RSQT is an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Exchange Rule 1014(b)(ii)(B).

interval following the dissemination of an opening trade or quote in the underlying security. Thus, specialist, SQTs and RSQTs would be able to price options series accurately on the opening.

Currently, the Exchange's systems immediately open a series when the following conditions are satisfied:

- (i) the Exchange has received market orders, or the book is crossed (highest bid is higher than the lowest offer) or locked (highest bid equals the lowest offer); and either:
 - (ii) (A) the specialist's quote has been submitted;
 - (B) the quotes of at least two Phlx XL participants⁷ have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security; or
 - (C) if neither the specialist's quote nor the quotes of two Phlx XL participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security, one Phlx XL participant has submitted their quote.

Once these conditions are satisfied, the system will automatically open the series immediately upon the dissemination of an opening trade or quote in the primary market for the underlying. The proposed rule change would delay the opening of an option series for up to five seconds from the dissemination of an opening quote or trade in the primary market for the underlying security or, respecting index options, following the

⁷ Phlx XL participants include specialist, SQT, RSQT, and non-SQT ROTs who are required to submit continuous two-sided electronic quotations pursuant to Exchange Rule 1014(b)(ii)(E). See Exchange Rule 1017(a).

dissemination of a quote or trade by the primary markets for underlying securities constituting 100% of the index value. The time period would apply uniformly to all options traded on the Exchange.

Experience with the automated opening system has shown that specialists, SQTs, and RSQTs frequently do not have an adequate opportunity to adjust their pre-opening quotes to accurately reflect the price of the underlying security when the underlying trade or quote is disseminated. As a result, the option series may be priced incorrectly at the opening, which places Exchange specialists, SQTs and RSQTs at market risk on the opening.

The delay (which time period would be determined by the Exchange and disseminated to membership via an Exchange circular) should enable Exchange specialists, SQTs and RSQTs to better manage this market risk and to maintain fair and orderly markets by pricing options series accurately on the opening.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act⁹ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, by enabling Exchange specialists, SQTs and RSQTs to better manage their risk, thus providing fair and orderly markets and correct options pricing on the opening of a series, all to the benefit of customers and the marketplace as a whole.

⁸ 15 U.S.C. 78f(b).

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 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

The foregoing proposed rule change effects a change in an existing order-entry or trading system of a self-regulatory organization that: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not have the effect of limiting the access to or availability of the system. Therefore, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁰ and Rule 19b-4(f)(5)¹¹ thereunder. At any time within 60 days of the filing of the proposed rule change the Commission may summarily abrogate such proposed 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 purposes of the Act.

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(5).

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-2007-25 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 Number SR-Phlx-2007-25. 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 the filing also will be available for inspection and copying at the principal office of the 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 Number SR-Phlx-2007-25 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.¹²

Florence E. Harmon
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).