

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55825; File No. SR-Phlx-2007-38)

May 29, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Automated Sending of Linkage Principal Acting as Agent Orders

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 May 22, 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 Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii)³ of the Act 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 Exchange proposes to amend its rules to reflect a system change that is intended to specify when orders that are not executed automatically on the Exchange would be routed through the Intermarket Option Linkage (“Linkage”).⁵ Specifically, the Exchange proposes to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(5).

⁵ On July 28, 2000, the Commission approved a national market system plan for the purpose of creating and operating an intermarket options market linkage (“Linkage”) proposed by the American Stock Exchange LLC, the Chicago Board Options Exchange, Incorporated, and the International Securities Exchange, LLC. See Securities Exchange Act Release No. 43086 (July 28, 2000), 65 FR 48023 (August 4, 2000). Subsequently, Phlx, the Pacific Exchange, Inc. (n/k/a NYSE Arca, Inc.), and the Boston Stock

amend Exchange Rule 1080(c)(vi)(A)(1) to reduce the exposure period for marketable customer limit orders on the Exchange's limit order book that are eventually sent automatically to away markets a Linkage Principal Acting as Agent ("P/A") Orders⁶ when the Exchange's disseminated market is not the National Best Bid or Offer ("NBBO"). The exposure period would be reduced from the current three seconds to one second.

The text of the proposed rule change is available on the Phlx's Web site at <http://www.phlx.com>, at the Exchange's principal office, and at the Commission's Public Reference Room.

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 Exchange 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 substantially 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 modernize the Exchange's system to account for technological advances that have been made in the Exchange's systems and in the

Exchange, Inc. joined the Linkage Plan. See Securities Exchange Act Release Nos. 43573 (November 16, 2000), 65 FR 70851 (November 28, 2000); 43574 (November 16, 2000), 65 FR 70850 (November 28, 2000); and 49198 (February 5, 2004), 69 FR 7029 (February 12, 2004).

⁶ A "P/A Order" is an order for the principal account of a specialist (or equivalent entity on another Participant Exchange that is authorized to represent Public Customer orders),

industry since the original adoption of the rule,⁷ and to provide more efficient executions for customers with marketable limit orders on the Exchange's limit order book.

Currently, under Exchange Rule 1080(c)(vi)(A)(1), when the Exchange's disseminated price on the opposite side of the market is not the NBBO, marketable public customer limit orders are exposed to the trading crowd and to participants in Phlx XL⁸ for a period of three seconds following receipt. At the end of this three-second exposure period, if the Exchange's disseminated price on the opposite side of the market is still not the NBBO, any unexecuted contract remaining in such an order is automatically sent as a P/A Order through the Linkage to an exchange disseminating a price on the opposite side of the market that is the NBBO.

If, at the end of the three-second exposure period, the Exchange's disseminated price on the opposite side of the market is the NBBO, any unexecuted contracts remaining in the marketable public customer limit order are automatically executed on the Exchange up to the Exchange's disseminated size. Any remaining contracts are then sent as P/A Order(s) to the exchange(s) displaying the NBBO. If the marketable public customer limit order is canceled during the three-second period, no P/A Order is sent and the marketable public customer limit order would not be executed.

The proposed system change would simply reduce the exposure period from three seconds to one second. The Exchange believes that the proposal to reduce the exposure period for marketable customer limit orders on the limit order book should provide more efficient and

reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent. See Exchange Rule 1083(k)(i).

⁷ See Securities Exchange Act Release No. 51544 (April 14, 2005), 70 FR 20613 (April 20, 2005) (SR-Phlx-2005-03).

⁸ Phlx XL is the Exchange's fully electronic trading platform for options. See Securities Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59).

immediate executions. In addition, the Exchange believes that a one-second order exposure feature for inbound limit orders when the Exchange's disseminated price on the opposite side of the market is not the NBBO, together with the automatic execution of unexecuted contracts up to the Exchange's disseminated size when the Exchange's disseminated price becomes the NBBO and the automatic routing through Linkage of unexecuted contracts when the Exchange's disseminated price is not the NBBO, will provide an effective means for avoiding trade-throughs.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ 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 providing more efficient executions for customers with marketable limit orders on the Exchange's limit order book.

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

The Exchange does not believe that the proposed rule change would 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

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

Because the proposed rule change effects a change in an existing order-entry or trading system that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not have the effect of limiting the access to or availability of the system, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹¹ and subparagraph (f)(5) of Rule 19b-4 thereunder.¹²

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 the furtherance of the purposes of the Act.

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 Number SR-Phlx-2007-38 on the subject line.

Paper comments:

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

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(5).

All submissions should refer to File Number SR-Phlx-2007-38. 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 also will 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 Number SR-Phlx-2007-38 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.¹³

Florence E. Harmon
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).