

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55910; File No. SR-Phlx-2007-26)

June 15, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to a Proposed Rule Change, as Modified by Amendment No. 1, Relating to Price-Improved Linkage P/A Orders

On March 21, 2007, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to permit Exchange specialists to execute Linkage Principal Acting as Agent (“P/A”) Orders³ that are sent to, and price-improved on, another exchange, and subsequently presented for execution on the Phlx against customer limit orders on the limit order book that give rise to the initial P/A Order, at a price other than the minimum trading increment applicable to the particular series traded. On May 2, 2007, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change was published for comment in the Federal Register on May 15, 2007.⁴ The Commission received no comment letters on the proposal. This order approves the proposed rule change as modified by Amendment No. 1.

After careful review of the proposal, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ A P/A Order is an order under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (“Linkage Plan”), for the principal account of a specialist (or equivalent entity on another Participant Exchange that is authorized to represent Public Customer orders), reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent. See Phlx Rule 1083(k)(i).

⁴ See Securities Exchange Act Release No. 55729 (May 9, 2007), 72 FR 27347.

and regulations thereunder applicable to a national securities exchange.⁵ In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,⁶ which requires, among other things, that the rules of an exchange be designed to prevent fraudulent and manipulative acts, 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.

In support of this proposal, the Exchange has represented that recently some P/A Orders have been executed on other exchanges at improved prices in penny increments after participating in a price-improvement auction process on the other exchange, resulting in the executed P/A Order being delivered back to the Exchange at a price that is expressed in other than the Exchange's minimum trading increment.

Phlx Rule 1034, Minimum Increments, currently provides that options quoting at \$3.00 or higher have a minimum increment of \$.10, and options quoting under \$3.00 have a minimum increment of \$.05.⁷ Currently, when a price-improved P/A Order is returned at a price other than the appropriate minimum trading increment, the Phlx specialist executes the customer order on the book at the price most favorable to the customer at the allowable minimum increment.

Phlx has proposed to eliminate this anomaly by providing that a P/A Order that has been sent from the Exchange to, and price-improved on, another exchange at a price expressed in other than the appropriate minimum trading increment, and then submitted to the Exchange for

⁵ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁶ 15 U.S.C. 78f(b)(5).

⁷ Options subject to the current "penny pilot" may be quoted and traded in increments as low as \$.01. See Securities Exchange Act Release No. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR-Phlx-2006-74).

execution against the original customer limit order that gave rise to the P/A Order, may be traded on the Exchange at such price. Such orders would be ineligible for automatic execution and would instead be handled manually by the specialist.

The Commission believes that the proposed rule change is consistent with the Act and would provide a mechanism for the accurate execution of customer limit orders at improved prices.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (SR-Phlx-2007-26), as modified by Amendment No. 1, be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Florence E. Harmon
Deputy Secretary

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 CFR 200.30-3(a)(12).