

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56714; File No. SR-Phlx-2007-70)

October 29, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of a Proposed Rule Change as Modified by Amendment No. 1 Thereto Relating to Rule 1034, Minimum Increments

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 September 5, 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 Phlx. On October 11, 2007, the Exchange submitted Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

Phlx proposes to amend Rule 1034, Minimum Increments, to decrease the size of the minimum quoting and trading increments applicable to the Exchange’s U.S. dollar-settled foreign currency options (“FCOs”).

The text of the proposed rule change is available at Phlx, the Commission’s Public Reference Room, and <http://www.phlx.com>.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

rule change. The text of these statements may be examined at the places specified in Item IV below. 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 provide additional trading opportunities by reducing the minimum increments applicable to the Exchange's U.S. dollar-settled FCOs.³ Quoting and trading in smaller increments should enable investors to trade U.S. dollar-settled currency options with greater precision as to price. The changes would permit the trading of U.S. dollar-settled FCOs in the same minimum increments that have long been applicable (with one unrelated exception - the physical delivery British pound/Japanese yen option) to the Exchange's physical delivery FCO contracts.

Currently, all U.S. dollar-settled FCOs other than the Japanese yen have minimum increments of \$.0010 (expressed as .10) or \$.0005 (expressed as .05). Minimum increments for the Japanese yen are \$.000010 (also expressed as .10) or \$.000005 (expressed as .05). In each case the applicable minimum increment is determined by the price at which the option is quoting. For example, all U.S. dollar-settled FCO contracts (other than options on the Japanese yen) quoting at \$.0300 (expressed as 3.00) or higher have a minimum trading increment of \$.0010 (expressed as .10), while the minimum increment for these U.S. dollar-settled FCOs quoting

³ On January 8, 2007, the Exchange began trading U.S. dollar-settled options on the British pound and the Euro on the Exchange's electronic trading platform for options, Phlx XL. See Securities Exchange Act Release No. 54989 (December 21, 2006), 71 FR 78506 (December 29, 2006) (approving SR-Phlx-2006-34). The Exchange subsequently listed U.S. dollar-settled FCOs on the Australian dollar, the Canadian dollar, the Swiss franc and the Japanese yen. See Securities Exchange Act Release No. 56034 (July 10, 2007), 72 FR 38853 (July 16, 2007) (approving SR-Phlx-2007-34).

under \$.0300 (expressed as 3.00) is \$.0005 (expressed as .05). These minimum increments were originally established in order to accommodate trading of U.S. dollar-settled FCOs on the Phlx XL platform, which did not have penny trading capability when the rules for the U.S. dollar-settled FCOs were first drafted and filed with the Commission.

The proposed amendments to Rule 1034 would set the minimum increment for U.S. dollar-settled FCOs on currencies other than the Japanese yen at \$.0001 and the minimum increment for U.S. dollar-settled FCO contracts on the Japanese yen at \$.000001 (in both cases expressed as .01), regardless of the price at which the option is quoting. This change would conform the minimum increments for U.S. dollar-settled FCOs to those applicable currently to the Exchange's physical delivery FCOs. Although U.S. dollar-settled FCOs would be trading in these narrower minimum increments, they would not actually be trading in pennies (the trading increment would actually be much smaller although it would be expressed as .01) and would not be considered part of the Exchange's pilot program currently applicable to certain equity options.⁴

Currently, options on currency futures trade in these smaller trading increments on the Chicago Mercantile Exchange. As a competitive matter, the Exchange seeks the opportunity to offer investors those same, more refined increments. Also, currencies trade on the cash market

⁴ The pilot, which permits certain options series to be quoted and traded in increments of \$ 0.01, began on January 26, 2007. See Securities Exchange Act Release No. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR-Phlx-2006-74). The pilot was extended through September 27, 2007. See Securities Exchange Act Release No. 56141 (July 24, 2007), 72 FR 42216 (August 1, 2007) (SR-Phlx-2007-53). The pilot program has been extended again through March 27, 2009. See Securities Exchange Act Release No. 56563 (September 27, 2007), 72 FR 56429 (October 3, 2007) (SR-Phlx-2007-62). With one exception all series in options included in the pilot trading at a price of less than \$3.00 are currently quoted and traded in minimum increments of \$0.01, and those with a price of \$3.00 or higher are currently quoted and traded in minimum increments of \$0.05. A list of all series of options in the pilot was communicated to membership via Exchange circular.

in these smaller increments. Additionally, as stated above, Phlx customers have been accustomed to trading in these more refined increments in the Exchange's physical delivery FCOs since 1982. Providing these more refined increments would permit Exchange specialists the opportunity to provide better fills (meaning less spread than the current wider minimum increments rules allow) to customers.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁵ in general, and with Section 6(b)(5) of the Act,⁶ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change would result in 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

Written comments were neither solicited nor received.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which Amex consents, the Commission will:

⁵ 15 U.S.C. 78f.

⁶ 15 U.S.C. 78f(b)(5).

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

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-2007-70 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.

All submissions should refer to File Number SR-Phlx-2007-70. 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, 100 F Street,

NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. 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-2007-70 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.⁷

Nancy M. Morris
Secretary

⁷ 17 CFR 200.30-3(a)(12).