

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56608; File No. SR-Phlx-2007-40)

October 3, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 3, Relating to the Definition of “Complex Trade”

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 21, 2007, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I, II, and III below, which Items have been prepared substantially by the Phlx. The Exchange filed Amendment No. 1 to the proposal on September 4, 2007, and withdrew Amendment No. 1 on October 1, 2007. The Exchange filed Amendment Nos. 2 and 3 to the proposal on October 1, 2007, and withdrew Amendment No. 2 on the same day.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 3, from interested persons.

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

The Phlx proposes to amend Phlx Rule 1066, “Certain Types of Orders Defined,” to revise the definition of “synthetic option,” and to amend Phlx Rule 1083(c) to change the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 3 replaces and supersedes the previously filed proposed rule change in its entirety.

definition of “Complex Trade” as it relates to the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (the “Linkage Plan”).⁴

The text of the proposed rule change is available at Phlx, the Commission’s Public Reference Room, and 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, 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, first, to amend Phlx Rule 1066(g) by adopting a new definition of “synthetic option order” to address strategies for synthetic option orders that often require a delta neutral position among the various components of the synthetic option order instead of the current requirement that such components offset one another on a one-for-one basis. The proposed definition is consistent with the definition of “stock-option

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

order” adopted by other U.S. options exchanges.⁵ A further purpose of the proposed rule change is to add a certain type of synthetic option order (as described more fully below) to the definition of “Complex Trade” in Phlx Rule 1083 so that such an order that resulted in a Trade-Through⁶ would qualify for an exception to Trade-Through and Satisfaction Order⁷ liability under the Exchange’s Rules and for purposes of the Linkage Plan. The proposed changes to the definition of “Complex Trade” in Phlx Rule 1083 conform the Phlx’s proposed definition of “Complex Trade” to the revised definition proposed by other Linkage Plan Participants.⁸

Synthetic Option Order

Currently, Rule 1066(g), “Synthetic Option,” defines a “synthetic option order” as an order to buy or sell a stated number of option contracts and buy or sell the underlying stock or Exchange-Traded Fund Share in an amount that would offset (on a one-for-one basis) the option position.

The proposed rule change would re-define “synthetic option order” to mean an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the

⁵ See, e.g., ISE Rule 722(a)(5)(i).

⁶ “Trade-Through” means a transaction in an options series at a price that is inferior to the National Best Bid or Offer (“NBBO”), but shall not include a transaction that occurs at a price that is one minimum quoting increment inferior to the NBBO provided a Linkage Order is contemporaneously sent to each Participant Exchange disseminating the NBBO for the full size of the Participant Exchange’s bid (offer) that represents the NBBO. See Phlx Rule 1083(t).

⁷ A Satisfaction Order is an order sent through the Linkage to notify a member of another Participant Exchange of a Trade-Through and to seek satisfaction of the liability arising from that Trade-Through. See Phlx Rule 1083(k)(iii).

⁸ See Securities Exchange Act Release No. 56555 (September 27, 2007) (File Nos. SR-Amex-2007-65; SR-BSE-2007-45; SR-CBOE-2007-64; SR-ISE-2007-44; and SR-NYSEArca-2007-65).

underlying stock or convertible security or the number of units of the underlying stock or convertible security necessary to create a delta neutral position; or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock as, and on the opposite side of the market from, the stock or convertible security portion of the order.

Complex Trade

The proposal would also amend Phlx Rule 1083 to revise the definition of “Complex Trade” for purposes of the Linkage Plan, which provides an exception to Trade-Through and Satisfaction Order liability when the transaction that caused the Trade-Through was the result of a “Complex Trade.”⁹

Specifically, the Exchange proposes first to modify the portion of the definition of “Complex Trade” that deals with ratio spreads to mean the execution of an order in an options series in conjunction with the execution of one or more related orders(s) in different options series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0) and for the purpose of executing a particular investment strategy.

Secondly, the Exchange proposes to include a certain limited type of synthetic option order in the definition of Complex Trade to afford an exception from Trade-Through liability in the case of the execution of a synthetic option order¹⁰ to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”),

⁹ See Phlx Rule 1085(b)(7). The Exchange notes that the other Participants in the Linkage Plan have filed proposed rule changes to adopt the same definition of “Complex Trade.” See supra, note 8.

¹⁰ The proposed text of Phlx Rule 1083(c)(ii) refers to “stock-option orders” as synonymous with “synthetic option orders” in order to be consistent with the definitions proposed by the other Linkage Plan Participants.

coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security; or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight (8) option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.

The Exchange believes that the proposed rule change should provide consistency in the Exchange's rules with rules proposed by the other Linkage Plan Participants.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹² 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 modernizing the Exchange's rules.

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

The Exchange believes that the proposed rule change will not 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.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

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 Phlx consents, the Commission will:

- (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-2007-40 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-2007-40. 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 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-2007-40 and should be submitted on or before [insert date 21 days after publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Nancy M. Morris
Secretary

¹³ 17 CFR 200.30-3(a)(12).