

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57361; File No. SR-Phlx-2008-06)

February 20, 2008

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, Relating to U.S. Dollar-Settled FCO Spot Prices

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 January 28, 2008, 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. On February 19, 2008, the Exchange filed 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

The Phlx proposes to amend Exchange Rules 722, “Margin Accounts,” 1000, “Applicability, Definitions and References,” and 1012, “Series of Options Open for Trading.” These amendments are proposed in order to change the term “Spot Sales Price” in Rule 1000(b)(16) to “Spot Price” (the term “Spot Price” will be used hereafter in this proposed rule change), and to amend the definition of Spot Price so that it may include foreign currency quotes of entities other than commercial banks. Specifically, the Exchange wishes to use certain bid and ask prices (“Thomson Quotes”) provided by Tenfore Systems Limited (“Tenfore”)³ through

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Tenfore is an independent provider of globally sourced real time market data.

Thomson Financial LLC ("Thomson") as Spot Prices commencing April 1, 2008. The Exchange is proposing that these new Spot Prices will be used by the Exchange in determining applicable margin requirements and strike prices for the Exchange's U.S. dollar-settled foreign currency options ("FCOs"). The text of the proposed rule change is available on the Exchange's Web site at http://www.Phlx.com/exchange/phlx_rule_fil.html, at the Exchange, 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. The text of these statements may be examined at the places specified in Item IV below. The Exchange 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 permit the Exchange to use the Thomson Quotes as the Spot Prices that will be the basis for calculating Phlx's current spot price of foreign currencies for various purposes. The current spot price is used by the Exchange in connection with its determination of strike prices and margin requirements for its FCO contracts.⁴

The Exchange is required pursuant to Rule 1012, "Series of Options Open for Trading," to refer to the spot prices of foreign currencies in determining strike prices for U.S. dollar-settled

⁴ As noted above, the Exchange is substituting the term "Spot Prices" for the defined term "Spot Sales Prices" in Rule 1000(b)(16), as a clarification that this defined term includes both bids and offers made by participants in the foreign currency markets (as opposed to offers only).

FCOs.⁵ Rule 722, “Margin Accounts,” requires the Exchange to establish margin requirements for FCO transactions based upon the spot price of the foreign currency underlying the option, and defines the term “current spot market price” in subsection (a) of that rule.

Currently, the Exchange receives Spot Prices which are contributor bank quotes from a vendor⁶ in real-time and takes the weighted average of the various quotes, to determine the Phlx’s foreign currency spot price.⁷ The Exchange now wishes to amend the definition of Spot

⁵ Commentary .06 of Rule 1012 provides that the Exchange will initially list exercise strike prices for each expiration of U.S. dollar settled options on currencies other than the Japanese yen within a ten percent band around the current spot price at half-cent (\$.005) intervals. It provides that as the spot price for U.S. dollar settled FCO moves, the Exchange will list new strike prices that, at the time of listing, do not exceed the spot price by more than 5% and are not less than the spot price by 5%. Commentary .06 provides that with respect to U.S. dollar-settled options on the Japanese yen, the Exchange will initially list exercise strike prices for each expiration within a ten percent band around the current spot price, at intervals of \$.00005. Similarly, Commentary .07 provides that the exercise price of each series of FCOs opened for trading on the Exchange normally shall be fixed at a price per unit which is reasonably close to the spot sales price per unit of the underlying foreign currency in the interbank foreign exchange market at or before the time such series of options is first opened for trading on the Exchange, as determined by finding the arithmetic mean of the spot sales prices at or about such time quoted by a group of commercial banks selected for this purpose by the Exchange.

⁶ The vendor currently used by the Exchange is Reuters. For the current FCO spot price associated with physical delivery FCOs, Phlx receives raw contributor bid and ask spot quotes from approximately 21 different bank contributors via a Reuters real-time FX feed throughout the trading day. When the bid and ask are received from the Reuters feed, the Exchange computes the average and distributes that value as the foreign currency spot value over the facilities of the Options Price Reporting Authority (“OPRA”) to vendors and individual customers. The value is disseminated whenever a contributor quote causes a recalculation of the foreign currency spot value. The Exchange will cease disseminating this foreign currency spot value after March 14, 2008, in connection with its planned delisting of its physical delivery FCO contracts. The Exchange will cease receiving bank quotes from Reuters as effective April 1, 2008. See Securities Exchange Act Release No. 56949 (December 12, 2007), 72 FR 71720 (December 18, 2007) (SR-OPRA-2007-03).

⁷ Phlx spot prices are a weighted average of a minimum of two and up to five of the most recent contributor quotes. If there are less than two contributor quotes, spot prices will not be calculated and disseminated. Contributor quotes greater than three minutes old are

Prices so that it can use the Thomson Quotes, which are not limited to quotes from banks but also include quotes from other foreign currency market participants, as Spot Prices for the setting of margin requirements and strike prices and for any other necessary purposes in connection with Phlx's FCO contracts.⁸

Tenfore has more than 21 contributors reporting, consisting of banks, spot currency portals, the European Central Bank, and brokers. The list of the primary contributors to Tenfore includes Dresdner Frankfurt, Dresdner Singapore, OHV, Tullett Prebon, Allied Irish Bank, Barclays, CMC Markets (US) LLC, European Central Bank, Merita Bank, OKO Bank, Sampo, Saxo Bank, Trinkaus, UBS, Khanani & Kallia, Realtime Forex Geneva, Rada Forex NY, Reems UAE and HotSpot Fxi. Tenfore's bid and ask Spot Prices are at any given point in time the latest bid and ask supplied to Tenfore by the last in time of any Tenfore contributor to report.

Under the current proposal, the Exchange would receive the latest Thomson Quotes from Thomson, which in turn obtains this data from Tenfore. With the exception of Japanese yen, the Exchange would then calculate the average of the bid and ask received to determine the current spot market price that the Exchange will use for purposes of calculating margin requirements and strike prices with respect to U.S. dollar-settled FCO contracts. Because the Thomson Quote is expressed differently for the Japanese yen than for the other currencies (in foreign currency units per U. S. dollar rather than in U. S. dollars per unit of foreign currency) the spot price that Phlx will use for the Japanese yen will be the inverse of the average of the Thomson Quote bid and ask (that is, one divided by the average of the Thomson Quote bid and ask).

discarded. Newer contributor quotes (less than one minute old) are given the greatest weighting. Spots are recalculated and disseminated for each contributor quote received.

⁸ The Exchange is also proposing to amend Rule 722 such that the current spot market price of an underlying foreign currency shall be determined using spot prices at 4:00 (the close of trading for U.S. dollar-settled FCOs) rather than 2:30 (the close of trading for physical delivery FCOs).

The Exchange would not disseminate the current spot market value it calculates based upon the Thomson Quotes. However, the Exchange currently does, and will continue to, disseminate its modified spot value - also based upon the Thomson Quotes - real-time over Network B of the Consolidated Tape Association.⁹ This modified spot value is more widely distributed, carried by more vendors, and more easily accessible than the Exchange's current foreign currency spot market price calculated on the basis of the bank quotes provided by Reuters.

The proposed process of calculating the average between the latest single bid and offer received is different from the process the Exchange currently uses to calculate a spot price. However, based on past experience, the Exchange believes that the methods of calculating the current and the proposed Phlx Spot Price, over time, would produce minor differences. To make this determination, the Exchange conducted an analysis using a statistical testing technique (a two-tail difference of means) from August 3, 2007 to November 30, 2007. The t-statistic and p-value were such that the Exchange could conclude there is no significant difference between the Phlx Spot Price calculated using bank quotes from the Exchange's current vendor and the Phlx Spot Price calculated using the Thomson Quotes. The Exchange believes that the Thomson

⁹ The Exchange currently disseminates, over the facilities of the Consolidated Tape Association at least once every fifteen seconds while the Exchange is open for trading, a modified spot rate for currencies underlying U.S. dollar-settled FCOs. The Exchange does not propose to change the modified spot rate in this proposed rule change. In the proposed rule changes filed by the Exchange for the modified spot rate, the Exchange stated that the modified spot rate would be disseminated over the facilities of the Consolidated Tape Association at least once every fifteen seconds while the Exchange is open for trading, but would not otherwise amend or affect the Exchange's existing rules governing U.S. dollar-settled FCOs. See Securities Exchange Act Release Nos. 55513 (March 22, 2007), 72 FR 14636 (March 28, 2007) (SR-Phlx-2007-28) and 56034 (July 10, 2007), 72 FR 38853 (July 16, 2007) (SR-Phlx-2007-34).

Quotes provide a reliable basis for determining a Phlx Spot Price which is representative of foreign currency spot market prices.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹¹ 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.

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

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 the Exchange 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.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(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 Number SR-Phlx-2008-06 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-2008-06. 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, 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 Exchange. 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-2008-06 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Florence E. Harmon
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).