

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56284; File No. SR-Phlx-2007-62)

August 17, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change Relating to the Extension and Expansion of a Pilot Program to Quote and Trade Certain Option Series in Increments of \$0.01

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 August 17, 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 Phlx. 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 Phlx proposes to extend and expand a pilot program (the “Pilot”) that permits certain options series to be quoted and traded in increments of \$0.01, through March 27, 2009. The extended Pilot would include additional options that are not part of the current Pilot. The text of the proposed rule change is available on the Exchange’s Web site at (<http://www.phlx.com>), at the offices of 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 and discussed any comments it received on

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 continue to permit specified options series to be quoted and traded in increments of \$0.01 by extending the Pilot through March 27, 2009, and to expand the Pilot to include additional options, as described more fully below. The Exchange believes that including additional options in the Pilot should provide greater breadth and depth of experience in quoting and trading options series in increments of \$0.01, and should therefore enable the Exchange to better analyze the impact of the Pilot on the options marketplace.

Current Pilot

The current Pilot began on January 26, 2007,³ and was thereafter extended through September 27, 2007.⁴ All series in options included in the Pilot ("Pilot Options," listed below) trading at a price of less than \$3.00 are currently quoted and traded in minimum increments of \$0.01, and Pilot Options with a price of \$3.00 or higher are currently quoted and traded in minimum increments of \$0.05, except that options overlying the Nasdaq-100 Index Tracking

³ See Securities Exchange Act Release No. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR-Phlx-2006-74). In that filing, the Exchange also made conforming amendments to various Exchange rules in order to be consistent with the Pilot. These conforming changes were also approved on a six-month pilot basis. Therefore, the Exchange is proposing to extend the effective date for these rules through March 27, 2009.

⁴ See Securities Exchange Act Release No. 56141 (July 24, 2007), 72 FR 42216 (August 1, 2007) (SR-Phlx-2007-53).

Stock (“QQQQ”)⁵ are quoted and traded in minimum increments of \$0.01 for all series regardless of the price. A list of all Pilot Options was communicated to membership via Exchange circular.

The options included in the current Pilot are:

<u>Symbol</u>	<u>Underlying Security</u>
IWM	Ishares Russell 2000
QQQQ	QQQQ
SMH	SemiConductor Holders
GE	General Electric
AMD	Advanced Micro Devices
MSFT	Microsoft
INTC	Intel
CAT	Caterpillar
WFMI	Whole Foods
TXN	Texas Instruments
A	Agilent Tech Inc.
FLEX	Flextronics International
SUNW	Sun Micro

Expanded Pilot

The Exchange proposes to expand the current Pilot to include additional options in two phases, beginning on September 28, 2007.

Phase I

Phase I would begin September 28, 2007, and would continue through March 27, 2008.

Phase I would include the original 13 Pilot Options, together with 22 additional options. The 22

⁵ The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 SharesSM, Nasdaq-100 TrustSM, Nasdaq-100 Index Tracking StockSM, and QQQSM are trademarks or service marks of The Nasdaq Stock Market, Inc. (*Nasdaq*) and have been licensed for use for certain purposes by the Philadelphia Stock Exchange pursuant to a License Agreement with Nasdaq. The Nasdaq-100 Index® (the *Index*) is determined, composed, and calculated by Nasdaq without regard to the Licensee, the Nasdaq-100 TrustSM, or the beneficial owners of Nasdaq-100 SharesSM. Nasdaq has complete control and sole discretion in determining, comprising, or calculating the Index or in modifying in any way its methods for determining, comprising, or calculating the Index in the future.

new options (listed below), combined with the original 13, would represent approximately 35% of national trading volume based on year-to-date trading volume data (through July 16, 2007) from the Options Clearing Corporation (“OCC”). Excluded from this phase are Google, NDX and RUT due to their relatively high premiums.

All Pilot Options in Phase I would trade in \$0.01 increments in series trading below \$3.00, and in \$0.05 increments in series trading at \$3.00 and above, except that options on QQQQ would continue to trade in increments of \$0.01 for all series.

Options to be added to the Pilot in Phase I:

<u>Symbol</u>	<u>Underlying Security</u>
SPY	SPDR Trust Series 1
AAPL	Apple Inc.
MO	Altria Group Inc.
DNDN	Dendreon Corporation
AMGN	Amgen, Inc.
YHOO	Yahoo!, Inc.
QCOM	Qualcomm, Inc.
GM	General Motors Corporation
XLE	S&P Energy Select Sector SPDR
DIA	DIAMONDS Trust Series I
OIH	Oil Services HOLDERS
NYX	NYSE Euronext
CSCO	Cisco Systems, Inc.
XLF	S&P Financial Select Sector SPDR
T	AT&T Corporation
C	Citigroup, Inc.
AMZN	Amazon.com, Inc.
MOT	Motorola, Inc.
RIMM	Research in Motion, Ltd.
FCX	Freeport-McMoRan Cooper & Gold, Inc.
COP	ConocoPhillips
BMJ	Bristol-Meyers Squibb Company

The Exchange would issue a circular to membership identifying the options to be added to the Pilot in Phase I.

Phase II

Phase II would begin March 28, 2008, and would extend for one year, through March 27, 2009. Options would be added to the Pilot in Phase II such that the Top 50 multiply listed options by national volume would be included, bringing the total number of options in the Pilot to 63. Thus, any multiply listed options in the Top 50 that are not included in Phase I would be added to the Pilot in Phase II. The Exchange would file a proposed rule change under Section (b)(3)(A) of the Act, and would issue a circular to membership, identifying the options to be added to the Pilot in Phase II.

Again, all penny options in Phase II would trade in \$0.01 increments in series trading below \$3.00, and in \$0.05 increments in series trading at \$3.00 and above. Options on QQQQ would continue to trade in increments of \$0.01 for all series.

Reporting

The Exchange would submit four (4) reports on the Pilot analyzing its impact on the quality of the Exchange's markets and on capacity, which would be due on the last day of the calendar month following a specified period, as follows:

Report #1 would cover the period from May 1, 2007 - September 27, 2007.

Report #2 would cover the period from September 28, 2007 - January 31, 2008.

Report #3 would cover the period from February 1, 2008 - July 31, 2008.

Report #4 would cover the period from August 1, 2008 - January 31, 2009.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)

of the Act,⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁷ in particular, in that the proposed rule change 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 expanding the Pilot to include more options series.

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

The Exchange does not believe that the proposed rule change will 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 on the proposed rule change 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 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.

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. The

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

Commission also requests and encourages interested persons to submit comments on the following specific questions:

- Whether there are circumstances under which options classes included in the Penny Pilot should be removed from the Pilot?
- If so, what factors should be considered in making the determination to remove an option class from the Penny Pilot?
 - Should an objective standard be used? For instance, should an option class come out of the Penny Pilot if its trading volume drops below a threshold amount? If so, what should that threshold be? Or, should an option class come out of the Penny Pilot if it is no longer among the most actively-traded options? If so, what should be considered the most-actively traded options? What statistics or analysis should be used to support a determination to remove an options class?
 - Should a more subjective analysis be allowed? If so, what factors should be taken into account?
- What concerns might arise by removing an option from the Penny Pilot? How could such concerns be ameliorated?
- How frequently should the analysis be undertaken (e.g., annually, bi-annually, quarterly), or should the evaluation be an automated process?
- If a determination is made that an option should be removed from the Penny Pilot, how much notice should be given to market participants that the quoting increment will change?

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-2007-62 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-2007-62. 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 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-2007-62 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.⁸

Florence E. Harmon
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).