

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53166; File No. SR-Phlx-2006-05)

January 23, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval to a Proposed Rule Change and Amendment No. 1 Thereto Relating to the Phlx XL Risk Monitor Mechanism

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 13, 2006, 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 and II below, which Items have been prepared by the Exchange. On January 19, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons. In addition, the Commission is granting accelerated approval of the proposed rule change, as amended.

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

The Exchange proposes to adopt Phlx Rule 1093, Phlx XL Risk Monitor Mechanism, to provide Exchange specialists, Streaming Quote Traders (“SQTs”),⁴ Remote

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 corrected certain technical errors in the text of the proposed rule change.

⁴ An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit option quotations electronically through the Exchange’s Automated Options Market (“AUTOM”) in eligible options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. See Phlx Rule 1014(b)(ii)(A).

Streaming Quote Traders (“RSQTs”),⁵ and non-SQT ROTs⁶ who are required to submit continuous two-sided electronic quotations pursuant to Phlx Rule 1014(b)(ii)(E)⁷ (collectively, “Phlx XL participants”) protection from the unreasonable risk associated with the execution of an excessive number of contracts resulting from near simultaneous executions in a single option issue. Such protection would be provided by way of the implementation of a Risk Monitor Mechanism. The Exchange also proposes conforming changes to Phlx Rule 1017, Openings in Options, and to Phlx Rule 1082, Firm Quotations, to describe the Exchange’s disseminated quotation when the disseminated size is exhausted and the specialist has not yet revised its quotation. The text of the proposed rule change, as amended, is below. Proposed new language is in *italics*; proposed deletions are in [brackets].

Phlx XL Risk Monitor Mechanism

Rule 1093. (a) The Phlx XL system (the “system”) will maintain a counting program (“counting program”) for each specialist, SQT, RSQT, and non-SQT ROT who is required to submit continuous two-sided electronic quotations pursuant to Rule 1014(b)(ii)(E) (collectively, “Phlx XL participants”) assigned in a particular option. The counting program will count the number

⁵ An RSQT is an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Phlx Rule 1014(b)(ii)(B).

⁶ A non-SQT ROT is an ROT who is neither an SQT nor an RSQT. See Phlx Rule 1014(b)(ii)(C).

⁷ Phlx Rule 1014(b)(ii)(E) requires non-SQT ROTs who transact more than 20% of their contract volume in an option electronically versus in open outcry during a particular calendar quarter to submit proprietary electronic quotations in such an option during the subsequent calendar quarter for a certain number of series in such option, depending on the percent of total volume transacted electronically versus in open outcry on the Exchange in such option.

of contracts traded in such an option by each Phlx XL participant within a specified time period, not to exceed 15 seconds, established by each Phlx XL participant (the “specified time period”). The specified time period will commence for an option when a transaction occurs in any series in such option.

(b) (i) Risk Monitor Mechanism. The system will engage the Risk Monitor Mechanism in a particular option when the counting program has determined that a Phlx XL participant has traded a Specified Engagement Size (as defined below) established by such Phlx XL participant during the specified time period. When such Phlx XL participant has traded the Specified Engagement Size during the specified time period, the Risk Monitor Mechanism will automatically remove such Phlx XL participant’s quotations from the Exchange’s disseminated quotation in all series of the particular option.

(ii) Specified Engagement Size. The Specified Engagement Size is determined by the following: (A) For each series in an option, the counting program will determine the percentage that the number of contracts executed in that series represents relative to the disseminated size in that series (“series percentage”); (B) The counting program will determine the sum of the series percentages in the option issue (“issue percentage”); (C) Once the counting program determines that the issue percentage equals or exceeds a percentage established by the Phlx XL participant, not less than 100% (“Specified Percentage”), the number of executed contracts in the option issue equals the Specified Engagement Size. For example, if a Phlx XL participant is quoting in four series of a particular option issue, and sets its Specified Percentage at 100%, the Specified Engagement Size would be determined as follows:

Example I

<u>Series</u>	<u>Size</u>	<u># of Contracts Executed</u>	<u>Percentage</u>
<u>Series 1</u>	<u>100</u>	<u>40</u>	<u>40%</u>
<u>Series 2</u>	<u>50</u>	<u>20</u>	<u>40%</u>
<u>Series 3</u>	<u>200</u>	<u>20</u>	<u>10%</u>
<u>Series 4</u>	<u>150</u>	<u>15</u>	<u>10%</u>
<u>Total</u>	<u>500</u>	<u>95</u>	<u>100%</u>
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In this example the Specified Engagement Size is 95 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 100%.

Example II

<u>Series</u>	<u>Size</u>	<u># of Contracts Executed</u>	<u>Percentage</u>
<u>Series 1</u>	<u>100</u>	<u>0</u>	<u>0%</u>
<u>Series 2</u>	<u>50</u>	<u>0</u>	<u>0%</u>
<u>Series 3</u>	<u>200</u>	<u>0</u>	<u>0%</u>
<u>Series 4</u>	<u>150</u>	<u>150</u>	<u>100%</u>
<u>Total</u>	<u>500</u>	<u>150</u>	<u>100%</u>
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In this example the Specified Engagement Size is 150 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 100%.

If a Phlx XL participant is quoting in four series of a particular option, and sets its Specified Percentage at 200%, the Specified Engagement Size would be determined as follows:

Example III

<u>Series</u>	<u>Size</u>	<u># of Contracts Executed</u>	<u>Percentage</u>
<u>Series 1</u>	<u>100</u>	<u>80</u>	<u>80%</u>
<u>Series 2</u>	<u>50</u>	<u>40</u>	<u>80%</u>
<u>Series 3</u>	<u>200</u>	<u>40</u>	<u>20%</u>
<u>Series 4</u>	<u>150</u>	<u>30</u>	<u>20%</u>
<u>Total</u>	<u>500</u>	<u>190</u>	<u>200%</u>
_____	_____	_____	_____

In this example the Specified Engagement Size is 190 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 200%.

The Specified Engagement Size will be automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period (the “Net Offset Specified Engagement Size”). For example, a Phlx XL participant that buys calls and also sells calls or buys puts in the same option during the specified time period would have a Net Offset Specified Engagement Size as follows:

Example IV

<u>Series</u>	<u>Size</u>	<u>Buy Call</u>	<u>Sell Call/ Buy Put</u>	<u>Net Offset Size</u>	<u>Percentage</u>
<u>Series 1</u>	<u>100</u>	<u>60</u>	<u>20</u>	<u>40</u>	<u>40%</u>
<u>Series 2</u>	<u>50</u>	<u>100</u>	<u>80</u>	<u>20</u>	<u>40%</u>
<u>Series 3</u>	<u>200</u>	<u>150</u>	<u>130</u>	<u>20</u>	<u>10%</u>
<u>Series 4</u>	<u>150</u>	<u>75</u>	<u>60</u>	<u>15</u>	<u>10%</u>
<u>Total</u>	<u>500</u>	<u>385</u>	<u>290</u>	<u>95</u>	<u>100%</u>
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The Net Offset Specified Engagement Size for each series is determined by offsetting the number of contracts executed on the opposite side of the market for each series during the specified time period. The Risk Monitor Mechanism shall be engaged once the Net Offset Specified Engagement Size is for a net number of contracts executed among all series in an option issue during the specified time period that represents an issue percentage equal to or greater than the Specified Percentage.

(c) Any marketable orders, or quotes that are executable against a Phlx XL participant's disseminated quotation that are received prior to the time the Risk Monitor Mechanism is engaged will be automatically executed at the disseminated price up to the Phlx XL participant's disseminated size, regardless of whether such an execution results in executions in excess of the Phlx XL participant's Specified Engagement Size.

(d) In the event that the specialist's quote is removed by the Risk Monitor Mechanism and there are no other Phlx XL participants quoting in the particular option, the system will automatically provide two-sided quotes that comply with the Exchange's rules concerning quote

spread parameters on behalf of the specialist until such time as the specialist revises the quotation. All quotations generated by the Exchange on behalf of a specialist shall be considered “firm quotations” and shall be the obligation of the specialist.

(e) The system will automatically reset the counting program and commence a new specified time period when:

(i) a previous counting period has expired and a transaction occurs in any series in such option; or

(ii) the Phlx XL participant refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.

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Obligations and Restrictions Applicable to Specialists and Registered Options Traders

Rule 1014. (a) No change.

(b) ROT. (i) No change.

(ii) (A) – (C) No change.

(D) Market Making Obligations Applicable in Streaming Quote Options. In addition to the other requirements for ROTs set forth in this Rule 1014, an SQT and an RSQT shall be responsible to quote continuous, two-sided markets in not less than 60% of the series in each Streaming Quote Option (as defined in Rule 1080(k)) in which such SQT or RSQT is assigned, provided that a Directed SQT or RSQT (as defined in Rule 1080(l)(i)(C)) shall be responsible to quote continuous, two-sided markets in not less than [100] 99% of the series in each Streaming Quote Option in which they receive Directed Orders (as defined in Rule 1080(l)(i)(A)). The specialist shall be responsible to quote

continuous, two-sided markets in not less than [100] 99% of the series in each Streaming Quote Option in which such specialist is assigned.

(E) No change.

(c) – (h) No change.

Commentary: No change.

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Openings In Options

Rule 1017. (a) No change.

(b) The system will calculate an Anticipated Opening Price (“AOP”) and Anticipated Opening Size (“AOS”) when a quote or trade has been disseminated by the primary market for the underlying security, and under the conditions set forth below. The specialist assigned in the particular option must enter opening quotes not later than one minute following the dissemination of a quote or trade by the primary market for the underlying security. An AOP may only be calculated if: (i) the Exchange has received market orders, or the book is crossed (highest bid is higher than the lowest offer) or locked (highest bid equals the lowest offer); and (ii) either (A) the specialist’s quote has been submitted; (B) the quotes of at least two Phlx XL participants that are required to submit continuous, two-sided quotes in [100] 99% of the series in all option issues in which such Phlx XL participant is assigned (“[100] 99% participants”), have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security (or such shorter time as determined by the Options Committee and disseminated to membership via Exchange Circular); or (C) if neither the specialist's quote nor the quotes of two [100] 99% participants have been submitted within two minutes of the opening trade or quote on the primary market for the underlying security (or such shorter time as

determined by the Options Committee and disseminated to membership via Exchange circular), one [100] 99% participant has submitted their quote.

In situations where an AOP may be calculated and there is an order/quote imbalance, the system will immediately send an imbalance notice indicating the imbalance side (buy or sell) and the AOP and AOS (an “Imbalance Notice”) to Phlx XL participants provided that the primary market for the underlying security has disseminated the opening quote or trade. Phlx XL participants that have not submitted opening quotes will then submit their opening quotes, and Phlx XL participants that have submitted opening quotes may submit revised opening quotes; thereafter the system will disseminate an updated Imbalance Notice every five seconds (or such shorter period as determined by the Options Committee and disseminated to membership via Exchange Circular) until the series is open. If no imbalance exists, no Imbalance Notice will be sent, and the system will establish an opening price as described in paragraph (c) below.

(c) – (d) No change.

(e) The system will not open a series if one of the following conditions is met:

(i) there is no quote from the specialist or a [100] 99% participant;

(ii) – (iii) No change.

(f) – (j) No change.

Commentary: No change.

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Firm Quotations

Rule 1082 (a) (i) No change.

(ii) (A) – (B) No change.

(C) (1) If an SQT or RSQT's (other than a Directed SQT or RSQT) quotation size in a particular series in a Streaming Quote Option is exhausted or removed by the Risk Monitor Mechanism, such SQT or RSQT's quotation shall be deleted from the Exchange's disseminated quotation until the time the SQT or RSQT revises his/her quotation.

(2) If the Exchange's disseminated size in a particular series in a Streaming Quote Option is exhausted at that particular price level, and no specialist, SQT or RSQT has revised their quotation immediately following the exhaustion of the Exchange's disseminated size at such price level, the Exchange shall automatically [disseminate the specialist's most recent disseminated price prior to the time of such exhaustion] provide two-sided quotes that comply with the Exchange's rules concerning quote spread parameters on behalf of the specialist until such time as the specialist revises the quotation, with a size of one contract.

(iii) – (iv) No change.

(b) – (d) No change.

Commentary: No change.

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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 had received on the proposed rule change. The text of these statements may be examined at the places

specified in Item III 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 to provide Phlx XL participants protection from the unreasonable risk of multiple nearly simultaneous executions. The risk to Phlx XL participants is not limited to a single series in an option issue; Phlx XL participants have exposure in all series of a particular option issue, requiring them to offset or hedge their overall position in an option issue.

Phlx XL participants submit proprietary electronic quotations in options in which they are assigned based on proprietary pricing models that rely on various factors such as the price and market volatility of the underlying security. The Phlx XL participant's pricing model and automated quotation system will continuously enter updated quotations in all series of an option based on changes in the various factors included in its pricing models. In addition to the Phlx XL participant's own proprietary quoting system, the Risk Monitor Mechanism would provide an additional tool to the Phlx XL participant to help manage the risk associated with providing liquidity in a large number of series across an option in which it is assigned.

Specialists trading on Phlx XL, together with SQTs and RSQTs that receive Directed Orders⁸ are currently required to submit continuous, two-sided quotations in 100% of the series

⁸ See Phlx Rule 1080(l).

in each option in which they are assigned.⁹ SQTs and RSQTs that do not receive Directed Orders are required to submit continuous, two-sided quotations in 60% of the series in each option in which they are assigned.¹⁰ Phlx XL participants are thus exposed to the possibility of near-simultaneous executions that can create large, unintended principal positions that expose the Phlx XL participant to unnecessary market risk. Consequently, Phlx XL participants may be more likely to widen their quotations, quote less aggressively, and limit their disseminated size in order to address these risks. The Risk Monitor Mechanism is intended to address these concerns by assisting Phlx XL participants in managing their market risk.

Phlx XL Risk Monitor Mechanism

The Phlx XL Risk Monitor Mechanism would begin with a counting program that would count the number of contracts traded in a particular option by each Phlx XL participant within a specified time period established by each Phlx XL participant (the “specified time period”). The specified time period would commence for an option when a transaction occurs in any series in such option. The specified time period may not exceed 15 seconds; Phlx XL participants may, however, set the specified time period for less than 15 seconds.

The system would engage the Risk Monitor Mechanism in a particular option when the counting program has determined that a Phlx XL participant has traded a Specified Engagement Size (as defined below) established by such Phlx XL participant during the specified time period. When such Phlx XL participant has traded the Specified Engagement Size during the specified time period, the Risk Monitor Mechanism would automatically remove such Phlx XL

⁹ See Phlx Rule 1014(b)(ii)(D). The proposed rule change would reduce the percentage quoting requirement as described more fully below.

¹⁰ Id.

participant's quotations from the Exchange's disseminated quotation in all series of the particular option until such Phlx XL participant submits a new, revised quotation.

Specified Engagement Size

Each Phlx XL participant would establish a Specified Engagement Size.¹¹ When such Phlx XL participant has traded the Specified Engagement Size during the specified time period, the Risk Monitor Mechanism would automatically remove such Phlx XL participant's quotations from the Exchange's disseminated quotation in all series of the particular option.

The Specified Engagement Size is determined as follows: For each series in an option, the counting program would determine the percentage that the number of contracts executed in that series represents relative to the disseminated size in that series (the "series percentage"). The counting program would then determine the sum of the series percentages in the underlying option issue (the "issue percentage"). Once the counting program determines that the issue percentage equals or exceeds a percentage established by the Phlx XL participant which may not be less than 100% (the "Specified Percentage"), the number of executed contracts in the option issue equals the Specified Engagement Size.

¹¹ A Phlx XL participant could establish the Specified Engagement Size as 100% or greater of the number of contracts executed in each series during the specified time period relative to the disseminated size. For example, a Phlx XL participant could establish the Specified Engagement Size as 200%, in which case the Risk Monitor Mechanism would not be engaged until 200% of the number of contracts in each series have been executed during the specified time period relative to the disseminated size. A Phlx XL participant could also establish the Specified Engagement Size as, for example, 120%, in which case the Risk Monitor Mechanism would not be engaged until 120% of the number of contracts in each series have been executed during the specified time period relative to the disseminated size. In any event, however, a Phlx XL participant may not establish a Specified Engagement Size that is less than 100%.

For example, if a Phlx XL participant is quoting in four series of a particular option issue, and sets its Specified Percentage at 100%, the Specified Engagement Size would be determined as follows:

Example I

<u>Series</u>	<u>Size</u>	<u># of Contracts Executed</u>	<u>Percentage</u>
Series 1	100	40	40%
Series 2	50	20	40%
Series 3	200	20	10%
Series 4	150	15	10%
<u>Total</u>	<u>500</u>	<u>95</u>	<u>100%</u>

In this example the Specified Engagement Size is 95 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 100%.

Example II

<u>Series</u>	<u>Size</u>	<u># of Contracts Executed</u>	<u>Percentage</u>
Series 1	100	0	0%
Series 2	50	0	0%
Series 3	200	0	0%
Series 4	150	150	100%
<u>Total</u>	<u>500</u>	<u>150</u>	<u>100%</u>

In this example the Specified Engagement Size is 150 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 100%.

If a Phlx XL participant is quoting in four series of a particular option, and sets its Specified Percentage at 200%, the Specified Engagement Size would be determined as follows:

Example III

<u>Series</u>	<u>Size</u>	<u># of Contracts Executed</u>	<u>Percentage</u>
Series 1	100	80	80%
Series 2	50	40	80%
Series 3	200	40	20%
Series 4	150	30	20%
<u>Total</u>	<u>500</u>	<u>190</u>	<u>200%</u>

In this example the Specified Engagement Size is 190 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 200%.

Offset on the Opposite Side of the Market

The Risk Monitor Mechanism would calculate the number of contracts executed on one side of the market during the specified time period, and offset that number of contracts by the number of contracts executed on the opposite side of the market during the specified time period. The purpose of this provision is to account for the offset in risk of one option position created by a position in the same option issue on the opposite side of the market. Because the risk in such a situation is neutral, the Exchange believes that Phlx XL participants should continue executing contracts until the actual risk that is created by the Specified Engagement Size is realized.

The Specified Engagement Size would thus be automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period (the “Net Offset Specified Engagement Size”). The Risk Monitor

Mechanism would be engaged when the Net Offset Specified Engagement Size is for a number of contracts executed among all series during the specified time period that represents an issue percentage that is equal to or greater than the specified percentage. For example, a Phlx XL participant that buys calls and also sells calls or buys puts in the same option during the specified time period would have a Net Offset Specified Engagement Size as follows:

Example IV

<u>Series</u>	<u>Size</u>	<u>Buy Call</u>	<u>Sell Call/ Buy Put</u>	<u>Net Offset Size</u>	<u>Percentage</u>
Series 1	100	60	20	40	40%
Series 2	50	100	80	20	40%
Series 3	200	150	130	20	10%
Series 4	150	75	60	15	10%
<u>Total</u>	<u>500</u>	<u>385</u>	<u>290</u>	<u>95</u>	<u>100%</u>

In this example, 675 contracts have been executed during the specified time period (buy calls 385 + sell calls/buy puts 290). The Net Offset Specified Engagement Size for each series is determined by offsetting the number of contracts executed on the opposite side of the market for each series during the specified time period. The Risk Monitor Mechanism would be engaged once the Net Offset Specified Engagement Size is executed for a net number of contracts among all series during the specified time period that represents an issue percentage that is equal to or greater than the specified percentage.

Firm Quotations

In order to remain consistent with the Exchange's rules concerning Firm Quotations,¹² the proposed rule change would provide that any marketable orders, or quotes that are executable against a Phlx XL participant's disseminated quotation, that are received prior to the time the Risk Monitor Mechanism is engaged would be automatically executed at the disseminated price up to the Phlx XL participant's disseminated size, regardless of whether such an execution results in executions in excess of the Phlx XL participant's Specified Engagement Size. Therefore, it is possible for a Phlx XL participant to execute a number of contracts that is greater than the Specified Engagement Size before the Risk Monitor Mechanism removes their quote from the Exchange's disseminated market.

Further, the proposed rule change would establish that, in the event that the specialist's quote is exhausted or removed by the Risk Monitor Mechanism, and there are no other Phlx XL participants quoting in the particular option, the system would automatically provide two-sided quotes that comply with the Exchange's rules concerning quote spread parameters on behalf of the specialist until such time as the specialist revises the quotation. All quotations generated by the Exchange on behalf of a specialist would be considered "firm quotations" and shall be the obligation of the specialist. The Exchange proposes conforming changes to Rule 1082 to reflect this situation.

The purpose of this provision is to ensure that the Exchange disseminates continuous quotations in all series traded on the Exchange, even in situations where no Phlx XL participant is disseminating its own quotations due to, for example, system malfunctions. The Exchange

¹² See Phlx Rule 1082.

believes that it should “take control” of a Phlx XL participant’s quotation only in limited circumstances (i.e., only when the Exchange’s failure to do so would result in no disseminated market from the Exchange), and that the Phlx XL participants then quoting should determine the Exchange’s disseminated price and size.

The Exchange proposes to amend Phlx Rule 1014(b)(ii)(D) to reduce the obligation of specialists and Phlx XL participants that receive Directed Orders¹³ to quote continuous, two-sided markets in not less than 100% of the series in each option in which they are assigned. The new obligation would be to quote in 99% of such series. The purpose of this proposal is to make the Exchange’s rules concerning quoting requirements consistent with the Risk Monitor Mechanism’s functionality (i.e., the removal of individual specialist and Directed SQT and RSQT quotations from the Exchange’s disseminated market). If the quoting obligation were to remain at 100% for these particular Phlx XL participants, a rule violation would occur each time the Risk Monitor Mechanism removes their quotation. Thus, the Exchange proposes to reduce this obligation so that removal of individual quotations does not result in violations of Exchange rules.

For consistency, the Exchange proposes conforming amendments to Phlx Rule 1017, Openings in Options, to change references to “100% participants” and re-name them “99% participants.”

Re-Setting the Counting System

Finally, the proposed rule change provides that the system would automatically reset the counting program and commence a new specified time period when either: (i) a previous

¹³ See Phlx Rule 1080(l).

counting period has expired and a transaction occurs in any series in such option; or (ii) the Phlx XL participant refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.

The commencement of the specified time period is event-driven, i.e., upon the execution of a transaction in a particular series in an option. The system would only initiate a specified time period when such an execution occurs. If there is no activity in an option, the system would not repeatedly commence and calculate the expiration of a new specified time period for such option unnecessarily. Once an execution occurs, however, a specified time period would commence.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁵ 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 assisting Phlx XL participants in managing their risk through the Risk Monitor Mechanism.

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

The Exchange does not believe that the proposed rule change would 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

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

No written comments were either solicited or received.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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-2006-05 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 20549-9303.

All submissions should refer to File Number SR-Phlx-2006-05. 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 Section, 100 F Street, NE, Washington, DC 20549. 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 publicly available. All submissions should refer to File Number SR-Phlx-2006-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder, applicable to a national securities exchange.¹⁶ In particular, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁷ which requires among other things, that the rules of the Exchange are 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. The Commission notes that the proposal does not alter the obligations of Phlx XL participants, except for the fact that it will reduce specialists and Phlx XL participants that receive directed orders continuous quoting obligation from 100% of the series in each option in which it is assigned to 99% of the series in each option in which it is assigned. The Commission notes that this reduction should provide specialists and Phlx XL participants that receive directed orders a brief amount of time to update their quotes after the Risk Monitor Mechanism removes their quotes from the

¹⁶ In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁷ 15 U.S.C. 78f(b)(5).

Exchange's disseminated quotation. In addition, the Commission believes that the proposed rule change should provide Phlx XL participants assistance in effectively managing their quotations.

The Phlx has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after publication of notice thereof in the Federal Register. The Commission notes that similar proposals to provide protection from risk for market makers have been approved for other options exchanges.¹⁸ The Commission believes that granting accelerated approval of the proposal should provide Phlx XL participants with similar protections from the risk associated with an excessive number of near simultaneous executions in a single options class. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,¹⁹ for approving the proposed rule change, as amended, prior to the thirtieth day after the date of publication of notice thereof in the Federal Register.

¹⁸ See Securities Exchange Act Release Nos. 51049 (January 18, 2005), 70 FR 3756 (January 26, 2005) (SR-BSE-2004-52); 51050 (January 18, 2005), 70 FR 3758 (January 26, 2005) (SR-ISE-2004-31); and 51740 (May 25, 2005), 70 FR 32686 (June 3, 2005) (SR-PCX-2005-64).

¹⁹ 15 U.S.C. 78s(b)(2).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁰ that the proposed rule change (SR-Phlx-2006-05) and Amendment No. 1 thereto be, and hereby are, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²¹

Nancy M. Morris
Secretary

²⁰ 15 U.S.C. 78s(b)(2).

²¹ 17 CFR 200.30-3(a)(12).