

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54648; File No. SR-Phlx-2006-52)

October 24, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change, and Amendment No. 1 Thereto, Relating to Quoting Obligations

I. Introduction

On August 15, 2006, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to amend Phlx Rule 1014, "Obligations and Restrictions Applicable to Specialists and Registered Options Traders," by adopting Phlx Rule 1014(b)(ii)(D)(4), which would state that Streaming Quote Traders ("SQTs"),³ Remote Streaming Quote Traders ("RSQTs"),⁴ and SQTs and RSQTs that receive Directed Orders⁵ ("DSQTs" and "DRSQTs," respectively) would be deemed not to be assigned in any option series until the time to expiration for such series is less than nine months. Accordingly, the market making obligations described in Phlx Rule 1014(b)(ii)(D) would not apply to SQTs, RSQTs, DSQTs, and DRSQTs respecting series with an expiration of nine months or greater. On September 8, 2006, the Exchange filed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Phlx Rule 1014(b)(ii)(A).

⁴ See Phlx Rule 1014(b)(ii)(B).

⁵ See Phlx Rule 1080(l)(i)(A).

Amendment No. 1 to the proposed rule change.⁶ The proposed rule change, as amended, was published for comment in the Federal Register on September 19, 2006.⁷ The Commission received no comments regarding the proposal, as amended. This order approves the proposed rule change, as amended.

II. Description of the Proposal

Currently, SQTs and RSQTs that do not receive Directed Orders in a Streaming Quote Option⁸ are responsible to quote continuous, two-sided markets in not less than 60% of the series in each Streaming Quote Option in which such SQT or RSQT is assigned.⁹

A DSQT or DRSQT is responsible to quote continuous, two-sided markets in not less than 99% of the series listed on the Exchange in at least 60% of the options in which such DSQT or DRSQT is assigned.¹⁰ Whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or DRSQT is assigned, such DSQT or DRSQT must maintain continuous quotations for not less than 99% of the series of the option listed on the Exchange until the close of that trading day.¹¹

⁶ Amendment No. 1 made a clarifying change to the proposed rule text, as well as two minor technical changes to the purpose section.

⁷ See Securities Exchange Act Release No. 54429 (September 12, 2006), 71 FR 54864.

⁸ A Streaming Quote Option is an option in which SQTs may generate and submit option quotations if such SQT is physically present on the Exchange floor, and RSQTs may generate and submit option quotations from off the floor of the Exchange, electronically. See Phlx Rule 1080(k). Currently, all options trading on the Exchange are Streaming Quote options.

⁹ See Phlx Rule 1014(b)(ii)(D)(1).

¹⁰ See Phlx Rule 1014(b)(ii)(D)(1).

¹¹ See Phlx Rule 1014(b)(ii)(D)(1).

To reduce the number of quotations submitted by SQTs, RSQTs, DSQTs and DRSQTs, the Phlx proposes to relax the quoting obligations that require quotes to be generated. Specifically, the Exchange proposes, on a six-month pilot basis, to permit SQTs, RSQTs, DSQTs and DRSQTs not to submit streaming quotations in options with a series of more than nine months until expiration, which are known as LEAPS (Long-term Equity Anticipation Securities), by deeming them not to be assigned in any option series until the time to expiration for such series is less than nine months. The effect of this is to relax their quoting obligations, and ultimately the number of quotes they are required to submit, because the quoting obligations in Phlx Rule 1014(b)(ii)(D)(1) apply only to those options in which they are assigned.

Specialists, currently responsible to quote continuous, two-sided markets in not less than 99% of the series in each Streaming Quote Option in which such specialist is assigned,¹² would still be required to quote LEAPS, so the Exchange would continue to disseminate a two-sided market in LEAPS.

The Exchange proposes to effect the proposed rule change, as amended, on a six-month pilot basis, beginning on the date the Commission approves this proposed rule filing.

III. Discussion

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

¹² See Phlx Rule 1014(b)(ii)(D)(2).

national securities exchange.¹³ In particular, the Commission believes that the proposal, as amended, is consistent with Section 6(b)(5) of the Act,¹⁴ which requires that the rules of an exchange be 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 believes that the proposal to relax the quoting requirements applicable to SQTs, RSQTs, DSQTs, and DRSQTs in LEAPS should reduce the number of options quotations required to be submitted on the Exchange and, therefore, should help to mitigate the Exchange's quote message traffic and capacity. In addition, the Commission notes that this proposal is consistent with the approach in current Phlx Rule 1012, Commentary .03, which states that strike price interval, bid/ask differential and continuity rules will not apply to such long term option series until the time to expiration is less than nine months.¹⁵

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁶ that

¹³ In approving this proposed rule change, as amended, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ See Securities Exchange Act Release No. 29103 (April 18, 1991), 56 FR 19132 (April 25, 1991) (order approving SR-Phlx-91-18).

¹⁶ 15 U.S.C. 78s(b)(2).

the proposed rule change (SR-Phlx-2006-52), as amended, is hereby approved on a six month pilot basis beginning on the date of this approval order.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Nancy M. Morris
Secretary

¹⁷ 17 CFR 200.30-3(a)(12).