

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54807; File No. SR-Phlx-2006-53)

November 21, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto Relating to Assignments in Options Based on Root Symbol

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 18, 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, II, and III, below, which Items have been prepared by the Phlx.<sup>3</sup> On November 21, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>4</sup> 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 Exchange proposes to amend Phlx Rule 507, Application for Assignment in Streaming Quote Options, by adopting new Commentary .01 to the rule, which would authorize the Exchange's Options Allocation, Evaluation and Securities Committee

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> At the Exchange's request, the Commission has made certain clarifying additions and deletions to the description of the proposed rule change. See Telephone Conversations between Richard S. Rudolph, Vice President and Counsel, Phlx, Cyndi Rodriguez, Special Counsel, Division of Market Regulation ("Division"), Commission and Johnna B. Dumler, Special Counsel, Division, Commission, on September 14, 2006 and September 20, 2006.

<sup>4</sup> In Partial Amendment No. 1, the Exchange clarified in the proposed rule text that root symbols are assigned to series by the Options Clearing Corporation.

(“OAESC”),<sup>5</sup> to assign trading privileges in options to Streaming Quote Traders (“SQTs”)<sup>6</sup> and Remote Streaming Quote Traders (“RSQTs”)<sup>7</sup> by “root symbol” (as defined more fully below), such that an SQT or RSQT may be assigned in only certain series of an option. The text of the proposed rule change, as amended, is set forth below. The underlining indicates new text.

\* \* \* \* \*

### **Application for Assignment in Streaming Quote Options**

**Rule 507.** (a) – (g) No change.

Commentary:

.01. An applicant may request assignment by “root symbol,” such that an SQT or RSQT may be assigned in only certain series of an option. A root symbol is the options trading mnemonic used for each option. The Exchange may list different root symbols, as

---

<sup>5</sup> The OAESC is a standing committee of the Exchange that has jurisdiction over the allocation, retention and transfer of the privileges to deal in all options to, by and among members on the options and foreign currency options trading floors. It is responsible for appointing specialists, alternate or assistant specialists or odd-lot dealers on the options and foreign currency options trading floors. It also establishes standards for the periodic review and evaluation of their performance and is empowered to suspend or revoke their appointments upon showing of reasonable cause therefore. See Phlx By-Law Article X, Section 10-7(a). See also Phlx Rule 500.

<sup>6</sup> An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit option quotations electronically through 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).

<sup>7</sup> 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).

applied by the Options Clearing Corporation (“OCC”), in series overlying the same underlying security depending, without limitation, on the strike price of the series, the expiration of the series, the price of the underlying security, and/or mergers and acquisitions relating to the underlying security.

\* \* \* \* \*

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, as amended, and discussed any comments it received on the proposed rule change, as amended. 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, as amended, is to mitigate quote traffic and address quote capacity issues by reducing the number of quotations required to be submitted on the Exchange. The proposal would permit the OAESC to assign trading privileges to SQTs and RSQTs, upon their request, only in specific series of a particular option based on the “root symbol” of the series, instead of assigning trading privileges in all series of such option. Thus, as described below, SQTs and RSQTs would be required to submit quotations in fewer series.

### Current Assignment Rule

Phlx Rule 507 currently provides the solicitation, application and review process to be followed by the OAESC when an SQT or RSQT submits an application for assignment in an option. Under Phlx Rule 507, an application for assignment must be submitted in writing to the Exchange's designated staff and would be required to include, at a minimum, the name of the SQT or RSQT applicant and written verification from the Exchange's Membership Services Department that such SQT or RSQT applicant is qualified as a ROT.

To ensure an SQT or RSQT applicant's technological readiness to submit electronic quotes, Phlx Rule 507(b)(ii) mandates that no application for assignment in Streaming Quote Options would be approved by the OAESC without written certification signed by an officer (Vice President or above) of the Exchange's Financial Automation Department<sup>8</sup> indicating that the SQT or RSQT applicant has sufficient technological ability to support his/her continuous quoting requirements as set forth in Phlx Rule 1014(b)(ii), and the SQT or RSQT applicant has successfully completed, or is scheduled to complete, testing of its quoting system with the Exchange.

---

<sup>8</sup> The Exchange's Financial Automation Department is responsible for the design, development, implementation, testing and maintenance of the Exchange's automated trading systems, surveillance systems, and back office systems, and for monitoring the quality of performance and operational readiness of such systems, in addition to user training and validation of user technology as it pertains to such users' interface with the Exchange's systems.

## SQT and RSQT Quoting Requirements

Currently, SQTs and RSQTs that do not receive Directed Orders<sup>9</sup> in a Streaming Quote Option<sup>10</sup> 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.<sup>11</sup>

An SQT or RSQT that receives Directed Orders (“DSQT” or “DRSQT”, respectively) 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.<sup>12</sup> 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.<sup>13</sup>

## The Proposal

The Exchange proposes to permit SQT and RSQT applicants to request assignment in an option by “root symbol.” Today, all assignments are by overlying option, meaning the SQT and RSQT applicants that are assigned in a particular option are

---

<sup>9</sup> The term “Directed Order” means any customer order (other than a stop or stop-limit order as defined in Phlx Rule 1066) to buy or sell which has been directed to a particular specialist, RSQT, or SQT by an Order Flow Provider. See Phlx Rule 1080(l)(i)(A).

<sup>10</sup> 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.

<sup>11</sup> See Phlx Rule 1014(b)(ii)(D)(1).

<sup>12</sup> See Phlx Rule 1014(b)(ii)(D)(1).

<sup>13</sup> See Phlx Rule 1014(b)(ii)(D)(1).

assigned in all series of such option. Therefore, the calculation of the percentage of series required to be quoted is based on every series listed in such option, thus requiring SQTs and RSQTs to quote most series.

Root symbols are the basic symbols used to identify an option, such as, for example, “ABQ” for options on fictitious “ABC Corporation.” The various series of options on ABC Corporation are identified with two additional symbols reflecting the expiration month and the strike price, which also indicate whether it is a put or call option. ABC Corporation may have different root symbols other than ABQ because of the number of strike prices (there are not enough letters in the alphabet to capture all potential strike prices), the expiration months available, and whether any mergers or acquisitions have occurred. Thus, an option on the Exchange overlying a single underlying security could have several different root symbols.

The Exchange anticipates that, if options can be assigned by root symbol, SQTs and RSQTs may more carefully tailor their requests to the specific roots in which they are interested, which should encourage quality quoting. According to the Exchange, SQTs and RSQTs often submit quotes with bid/ask differentials as wide as the Exchange’s rules permit in series that they have no interest in quoting.<sup>14</sup> The effect of this is that, in order to meet their quoting continuity requirements, SQTs and RSQTs submit continuous quotations that are not at or even near the best bid or offer on the Exchange, nor the

---

<sup>14</sup> Streaming Quote Options trading on the Exchange’s fully electronic trading platform for options, Phlx XL, may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply to Streaming Quote Options trading on Phlx XL and only following the opening rotation in each security. See Phlx Rule 1014(c)(i)(A)(2).

National Best Bid or Offer. Such quotations result in unnecessary quote traffic on the Exchange, often causing issues of concern respecting quote capacity. This proposal should reduce the number of series assigned to SQTs and RSQTs by the OAESC, and consequently reduce the number of quotes submitted by SQTs and RSQTs.

2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with Section 6(b) of the Act<sup>15</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>16</sup> 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 reducing the number of options quotations required to be submitted, which should enable the Exchange to mitigate quote traffic and capacity.

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

The Exchange does not believe that the proposed rule change, as amended, will 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

Written comments on the proposed rule change, as amended, were neither solicited nor received.

---

<sup>15</sup> 15 U.S.C. 78f(b).

<sup>16</sup> 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 the Phlx consents, the Commission will:

- (A) by order approve such proposed rule change, as amended, or,
- (B) institute proceedings to determine whether the proposed rule change, as amended, 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, 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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2006-53 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-2006-53. 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, as amended, that are filed with the Commission, and all written communications relating to the proposed rule change, as amended, 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. 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-2006-53 and should be submitted on or before [insert date 21 days from date of publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>17</sup>

Nancy M. Morris  
Secretary

---

<sup>17</sup> 17 CFR 200.30-3(a)(12).