

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55027; File No. SR-Phlx-2006-53)

December 29, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change as Modified by Amendment No. 1 Thereto, Relating to Assignments in Options Based on Root Symbol

I. Introduction

On August 18, 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 507, “Application for Assignment in Streaming Quote Options.” Specifically, Phlx proposes to adopt new Commentary .01 to Phlx Rule 507, which would authorize the Exchange’s Options Allocation, Evaluation and Securities Committee (“OAESC”),³ to assign trading privileges in options to Streaming Quote Traders (“SQTs”)⁴ and Remote Streaming Quote Traders (“RSQTs”)⁵ by “root symbol” (as defined more fully below), such that an SQT or RSQT may be assigned in only certain series of an option. On November 21, 2006, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change was published for comment in the Federal Register on November 29, 2006.⁶ The

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Phlx By-Law Article X, Section 10-7(a). See also Phlx Rule 500.

⁴ See Phlx Rule 1014(b)(ii)(A).

⁵ See Phlx Rule 1014(b)(ii)(B).

⁶ See Securities Exchange Act Release No. 54807 (November 21, 2006), 71 FR 69173.

Commission received one comment letter on the proposed rule change.⁷ This order approves the proposed rule change as modified by Amendment No. 1.

II. Description of the Proposal

The purpose of the proposed rule change 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.

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.

⁷ See letter to Nancy Morris, Secretary, Commission, from Christopher Nagy, Chair, SIFMA Options Committee (“SIFMA”), dated December 20, 2006. SIFMA does not directly oppose Phlx's quote mitigation proposal discussed herein, but instead favors the adoption of a comprehensive industry-wide quote mitigation strategy. Specifically, SIFMA believes that the adoption of an industry-wide, uniform “holdback timer” proposal would provide the most effective means of quote mitigation. Although, SIFMA expressed concern that a lack of uniformity among quote mitigation strategies implemented by the various options exchanges may impose a burden on member firms and result in confusion among market participants, SIFMA does not specifically oppose the adoption of the quote mitigation proposal approved by this order. Additional concerns raised in SIFMA's December 20, 2006 comment letter relating to other proposed rule changes filed by the options exchanges will be more fully addressed in any subsequent releases issued by the Commission.

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 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. 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.⁸ The Exchange believes that, as a result, to meet their quoting continuity requirements,⁹ SQTs and RSQTs submit continuous quotations that are not at or even near the best bid or offer on the

⁸ 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).

⁹ See Phlx Rule 1014(b)(ii)(D)(1).

Exchange, nor the National Best Bid or Offer, resulting in unnecessary quote traffic on the Exchange.

III. Discussion

After careful review of the proposal and consideration of the comment letter, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹⁰ In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,¹¹ which requires, among other things, 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 Exchange's proposal to, upon request, assign trading privileges in options to SQTs and RSQTs by "root symbol" would permit the Phlx's traders to select the series of options that they are most interested in quoting. This should not only reduce the number of series assigned to SQTs and RSQTs by the OAESC, but should also reduce the number of quotes submitted by SQTs and RSQTs, and therefore should help to mitigate the Exchange's quote message traffic and capacity.

¹⁰ In approving this proposed rule change 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).

¹¹ 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-Phlx-2006-53), as modified by Amendment No. 1, be, and hereby is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Florence E. Harmon
Deputy Secretary

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).